PUBLIC DEBTS IN CHINA

BY

FENG-HUA HUANG, M. A.

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
IN THE
FACULTY OF POLITICAL SCIENCE
COLUMBIA UNIVERSITY

NEW YORK
1919

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by

The Faculty of Political Science of
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To

MY FATHER

THIS MONOGRAPH IS AFFECTIONATELY

DEDICATED

PREFACE

Public debts in China constitute one of her foremost fiscal and political problems. The imposition of huge indemnities and the conclusion of foreign loans have introduced into the country a system which not only restricts China's sovereign rights and impedes her economic development, but also tends to create international rivalry, thereby disturbing the peace of the Orient and impairing the Chinese independence and integrity. This monograph is an attempt to present the history of China's domestic and foreign loan negotiations and especially to set forth the various problems relating to her foreign indebtedness. It is the hope of the author that the treatise will furnish a practical basis for the solution of the perplexing problem which must be faced sooner or later, if the peace of the Far East is to be maintained and if the natural resources of China are to be properly developed to the benefit of her people and of the world at large.

My profound thanks are due to Professor Edwin R. A. Seligman for his sound instruction in the Science of Finance, for his inspiring direction in the preparation of this work, and for his many invaluable corrections in reading over the manuscript. I am also deeply indebted to Professor Henry A. E. Chandler, who has read the proof and suggested many improvements.

F. H. HUANG.

NEW YORK, APRIL, 1919.

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CHAPTER I

Domestic Loans

Broadly speaking, public debts in China may be classified under two main heads: the debts of the central government and those contracted by the provinces. Each of these categories may be divided in turn into domestic loans and foreign loans. The foreign loans of the central government may be subdivided into (1) indemnity and war loans, (2) railway loans, and (3) general loans. To the last group belong the administrative loans, the reorganization loans and some of the industrial loans not for railway purposes. This classification makes no mention of municipal indebtedness which has played such an important role in the history of other countries. There are two reasons for the absence of municipal indebtedness in China. First, municipalities have always been administered by appointees of the central government, and hence loans contracted for municipal improvements are made in the name of the central government rather than in that of the various municipalities concerned. Second, owing to the incomplete system of state laws, municipal government has not yet been fully developed, and thus municipalities are unable to contract obligations upon their own responsibility.

The domestic loans of the central government constitute the first subject of our discussion. Like other loans contracted in China, they are essentially of modern origin.[1] It

[1] The absence of a public debt in China previous to the opening of the country in 1842 was due principally to four causes: (1) the

was only in 1894, when China was hard-pressed for money in her war against Japan, that the first real attempt was made to float a loan within the country. This loan, known as " The Merchants' Loan of 1894," was to be raised among the merchants in different parts of China.[1] The conditions of the loan varied with the different localities. In Kwangtung, the loan was secured by (1) the Kwangtung customs revenue, (2) the Kwangtung likin duties on opium, and (3) the receipts of the provincial treasury. It bore interest at 8.4 per cent and was to run for six years, divided into twelve periods, payment of principal beginning with the second period. In Peking, the loan was secured by the receipts of the Imperial household and was for a term of two and a half years, divided into five periods, payment of principal beginning with the second period. The rate of interest was similar to that of the Kwangtung loan. The amount of the Merchants' loan was not known, but the actual yield amounted to only 11,020,000 taels.

The failure to raise a domestic loan in 1894 compelled the government to resort to foreign loans. During the period from 1894 to 1898, no less than six foreign loans were concluded, with an aggregate indebtedness amounting to about 40,000,000 taels.[2] It was only when the loan conditions imposed by foreign capitalists became unbearable that the gov-

laissez-faire policy of the government which did not concern itself with anything but the maintenance of peace and order in the country; (2) the smallness of military expenditure, for there was no standing army and the people furnished much of their own equipment for military services in case of emergencies; (3) the system of accumulated reserves; and (4) the theory that the government expenditures should be regulated according to revenue.

[1] Chia Sze-yi, *The Financial History of the Republic* (in Chinese), Shanghai, 1917, vol. iv, pp. 1-4; *The Writings of Liang Chichiao* (in Chinese), published by the Commercial Press, Shanghai, 1917, vol. x, pp. 234-5.

[2] *Cf. infra,* pp. 19-23.

ernment again turned to domestic borrowing. This occurred in 1898, when the government failed to negotiate loans on reasonable terms either with the Anglo-German group or with the French-Russian group. In order to meet the urgent need of paying the war indemnity to Japan, China issued the Trust loan of 1898 for 100 million Kuping taels, bearing 5 per cent interest.[1] This loan was secured by the land tax and the salt tax, and was for a term of 20 years, payment of principal beginning with the eleventh year. In addition, official titles were to be awarded to those who made a subscription of 10,000 taels or more. In spite of this special inducement, only a very small portion of the loan was actually raised.

The failure of this loan, as well as of the previous one, may be attributed to three causes. In the first place is to be noted the lack of an efficient administrative system. According to Mr. Chia Sze-yi, the two loans were badly managed and their administration caused much trouble and uneasiness among the people in general.[2] In the second place, the government did not command the confidence of the people. Partly because of racial antagonism and partly because of the corrupt and inefficient administration obtaining at that time, the people had little faith in the Manchu government. Finally, the absence of a money market is a third factor responsible for the failure of the two loans. As Professor Henry C. Adams has well said in his book entitled "Public Debts," the fundamental prerequisites for a successful loan are two: the presence of a money market and the existence of a representative form of government.[3] Both of these were wanting at that time, as China was then

[1] Chia Sze-yi, *op. cit.*, vol. iv, pp. 5-6; *North China Herald* (An English Weekly published in China), vol. lxxviii, pp. 223-4, 241-2.

[2] *Ibid.*

[3] Henry C. Adams, *Public Debts*, New York, 1893, *passim.*

just entering upon a definite stage of industrial development and her people were clamoring for some sort of representative government—either a constitutional monarchy or a republic.

The failure of these two loans ended all attempts of the Manchu government in this direction. But the practice was revived during the revolutionary period when both sides were in dire need of money. Consequently, two domestic loans were floated, the Patriotic Loan by the Yuan Shih-kai cabinet at Peking and the Five Per Cent Military Loan by the Nanking government.[1] It is interesting to note the similarities and differences between these two loans. Both of these loans were for the purpose of military expenditure and were issued in $5, $10, $100, and $1,000 bonds. But the amount of the Patriotic Loan was $300,000,000 with a 5 per cent interest; while the Nanking government was to raise a loan of $100,000,000 at the rate of 8 per cent. The term of the Patriotic Loan was nine years and it was secured by the receipts of the Imperial treasury; while the Military Loan was to run for six years and had as its security the internal revenue of the country. Because of the absence of a money market and of the political uncertainty prevailing at that time, the issue of these loans was as unfortunate as it was unsuccessful, for it resulted in an inflated currency, especially in the revolutionary provinces.

Scarcely had the government gone through the bitter experience of financial embarrassment accompanying the revolutionary period and the beginning of the Republic, than the government was again confronted in 1914 with the problem of financing the administration and securing certain essential reforms. This was forced upon China by the outbreak of the European war, which caused suspension of all

[1] Chia Sze-yi, *op. cit.*, vol. iv, pp. 6-7; *Far Eastern Review*, vol. viii, no. 11, pp. 345-350; *China Year Book*, 1913, pp. 305-328.

negotiations for foreign loans. In order to meet the deficit, the Third Year Six Per Cent Domestic Loan was issued in the latter part of 1914.[1] The amount of this loan was $16,000,000, bearing 6 per cent interest. It was issued at 94 in denominations of $10, $100, $1,000 and $10,000 bonds. The term of this loan was twelve years, payment of the principal beginning in the fourth year with a drawing of one-ninth of the total. The loan was secured by the surplus receipts of the railways under the direct management of the Ministry of Communications and by the Peking likin tax. Both the Bank of China and the Bank of Communications and their branches acted as agencies for subscription. This loan was quite successful, as it was oversubscribed by $10,000,000, nearly two-thirds more than the original amount.

The Third Year Domestic Loan was followed by the Fourth Year Domestic Loan issued in 1915.[2] The purpose of this loan was twofold: to repay old debts and to aid the national treasury in its current finances. The amount was 24 million dollars in denominations of $5, $10, $100, $1,000 and $10,000 bonds, bearing interest at 6 per cent. It was issued at 90 and was for a period of eight years, payment of principal beginning in the third year. The securities for this loan were (1) the surplus revenue from the native customs, (2) the receipts of the tax-collection bureau at Kalgan, and (3) the likin tax in Shansi. This loan was oversubscribed by $2,159,790.

The success of the Third Year and Fourth Year Domestic Loans is of historic importance. For the first time it was shown that China is not absolutely dependent upon the foreign money lender, that her people are capable of assum-

[1] Chia Sze-yi, *op. cit.*, vol. iv, pp. 7-11; *China Year Book*, 1916, pp. 322-323.

[2] Chia Sze-yi, *op. cit.*, vol. iv, pp. 11-14; *China Year Book*, 1916, pp. 322-323.

ing the responsibilities of self-government, and that her officials have been efficient and honest in administering the financial affairs of the country. All these tend to indicate that given sufficient time and proper encouragement, the Chinese people will be able to put their house in order and to shape their own destiny along lines of proper national development.

CHAPTER II

Indemnity and War Loans

Since the opening of the country in 1842 China has experienced many grave difficulties with foreign countries. One of these was her war with Japan in 1894 and 1895, which was more or less forced upon China by Japan's intrusion into Korea, a Chinese tributary state of many centuries' standing. As is well known, China was wholly unprepared, especially financially, for such a contest. Her accumulated reserves had been exhausted and her revenues were then only just sufficient to carry on the national administration. To borrow from foreign financiers was the only alternative left to China, as she was able neither to increase her revenues at once nor to issue a large domestic loan within the country. Consequently two foreign loans were contracted, one in 1894 and the other in 1895,[1] both of them concluded with the Hongkong and Shanghai Bank. The first loan amounted to 10,000,000 taels, bearing 7 per cent interest. It was issued at 98 and was secured by the customs revenue of the country. The loan was to run for twenty years, payment of principal beginning with the eleventh year. The second loan was for £3,000,000, bearing six per cent interest. The issuing price, the term and the securities of this loan were similar to those of the previous one.

The termination of the Chinese-Japanese war in 1895 did

[1] Chia Sze-yi, *op. cit.*, vol. iv, pp. 18-19; *The Writings of Liang Chi-chiao, op. cit.*, vol. x, pp. 306-8; *China Year Book*, 1916, p. 321.

not release China from her financial embarrassment. On the contrary, Japan's victory over China, resulting in the imposition of a huge indemnity, greatly increased the financial burden of the Chinese people. At the beginning of the peace negotiations held at Shimonoseki, Japan demanded an indemnity of 300,000,000 taels. The final agreement stipulated that China was to pay 200,000,000 taels, besides ceding to Japan the Liao-tung Peninsula, the Island of Formosa and the Pescadores Islands.[1] Article IV of the Shimonoseki Treaty reads as follows:

China agrees to pay to Japan as a war indemnity the sum of 200,000,000 Kuping taels; the said sum to be paid in eight installments. The first installment of taels 50,000,000 to be paid within six months, and the second installment of taels 50,000,000 to be paid within twelve months, after the exchange of the ratifications of this Act. The remaining sum to be paid in six equal annual installments as follows: the first of such equal annual installments to be paid within two years, the second within three years, the third within four years, the fourth within five years, the fifth within six years, and the sixth within seven years, after the exchange of the ratifications of this Act. Interest at the rate of five per centum per annum shall begin to run on all unpaid proportions of the said indemnity from the date the first installment falls due.

China shall, however, have the right to pay by anticipation at any time any or all of said payments. In case the whole amount of the said indemnity is paid within three years after the exchange of the ratifications of the present Act, all interest shall be waived, and the interest for two years and a half, or for any less period, if then already paid, shall be included as part of the principal amount of the indemnity.

The Peace Treaty of Shimonoseki was signed on April

[1] *Treaties between China and Foreign States*, compiled by Inspector-General of Customs, Shanghai, 1908, pp. 1318-1324.

17, 1895, and the exchange of its ratifications was to be made on May 8, 1895. But suddenly on April 23, the representatives of Russia, France and Germany at Tokio separately presented to the Tokio Foreign Office identical notes intimating that Japan's retention of the Liao-tung Peninsula was considered by them as not only imperiling the Chinese capital, but also rendering Korean independence illusory, and that it was consequently prejudicial to the permanent peace of the Far East.[1] Therefore, they advised the Tokio government to return that piece of territory to China. With this advice the Tokio government reluctantly complied. The Liao-tung Peninsula was finally handed back to China in return for an additional indemnity of 30,000,000 taels as compensation.

The imposition of this huge indemnity by Japan greatly aggravated the problem of China's foreign indebtedness. It was with the thought of solving this problem that China contemplated the appointment of Sir Robert Hart to take charge of the financial arrangements with other countries when the payment of the first installment of the indemnity fell due.[2] Russia strongly objected to this appointment and suggested the raising of a joint French-Russian loan to be guaranteed by the Russian government. This suggestion was accepted by the Chinese government. Consequently a French-Russian loan amounting to 400,000,000 francs was concluded. This loan was issued at 94½, bearing 4 per cent interest. It was to run for thirty-six years and was secured by the customs revenues of the country in addition to the guarantee undertaken by the Imperial Russian government.

[1] For a more detailed account, see Chia Sze-yi, *op. cit.*, pp. 20-21; Hornbeck, S. K., *Contemporary Politics in the Far East*, New York, 1916, pp. 221-2.

[2] For details, see Chia Sze-yi, *op. cit.*, pp. 21-22; *China*, no. 1 (1899) *passim*.

The conclusion of the French-Russian loan greatly alarmed the British in China, who feared that their prestige in the Far East might be impaired. Therefore, in order to preserve the balance of power and to counteract the joint French-Russian diplomacy at Peking, the British enlisted the help of the Germans and exacted from China the two following loans.[1] The first of these is known as the Cassel loan of 1895, contracted with the Chartered Bank of India, a British firm. This amounted to £1,000,000, bearing interest at 6 per cent. It was issued at 95½ and was secured by the customs revenues. The term of the loan was twenty years. The second loan is called the Nanking loan of 1895 and was placed with a German firm. The conditions of this loan were similar to those of the previous one, except that the Kiangsi likin and salt taxes were added as securities.

When the payment of the second installment of the indemnity fell due, the government again turned to foreign capitalists for loans.[2] The Anglo-German group demanded that the loan should be issued at 89½, bearing interest at 5 per cent. The government objected to these harsh conditions and sought to raise loans from other sources, but in vain. At this juncture, when payment had to be made within a few weeks, the French Minister, with the backing of the Russian Minister at Peking, asked for the conclusion of a loan on the following conditions: (1) the French government was to guarantee the loan, in return for which China was (2) to turn over to the French the administration of the Imperial Customs Service, and (3) to grant to them certain special privileges in Kwangtung, Kwangsi and Yunnan. These proposals were, of course, inimical to the best interests of China as well as to those of the British in the Far East. Consequently, Sir Robert Hart, the British

[1] Chia Sze-yi, *op. cit.*, vol. iv, pp. 21-23; *China Year Book*, 1914, ch. xvi.
[2] *Ibid.*

chief inspector-general in the employ of the Chinese Imperial Customs Service, undertook to persuade the Anglo-German group to modify their terms. As a result, the Anglo-German loan of 1896 was concluded. This loan, amounting to £16,000,000 and bearing interest at 5 per cent, was issued at 94. It was to run for thirty-six years and was secured by the customs revenue of the country.

In the spring of 1898, the government decided to raise a large loan to pay off all the indemnity owing to Japan, as it was stipulated in Article IV of the Shimonoseki Treaty that all the interest would be waived if the entire indemnity were paid within three years after the exchange of the ratifications. At first, the government attempted to raise a domestic loan (the Trust loan), but failed.[1] Recourse had consequently to be taken again to foreign loans.[2] The Russian Minister at Peking offered to make a loan at 4 per cent interest with actual payment at 93 per cent in return for (1) the appointment of a Russian chief inspector-general in the Imperial Customs Service in place of Sir Robert Hart, and (2) certain railway rights in North China. The British Minister sought to counteract the Russian proposal by suggesting a loan at 5 per cent with actual payment at 94 in return for (1) financial control, and (2) the railway rights from Burma to the Yangtze Valley. Both the Russian and French Ministers objected strongly to the English proposal. The Chinese government was thus forced to decide not to raise any foreign loan for the time being and to ask Japan to postpone the payment of the fourth installment of the indemnity for twenty years. This Japan refused to do. Finally an Anglo-German loan was concluded for £16,000,000. It was issued at 83 and carried a 4½ per cent interest. The

[1] *Supra*, pp. 15-16.

[2] Chia Sze-yi, *op. cit.*, vol. iv, pp. 23-25; *China*, no. 1 (1899), *passim*; *China Year Book*, 1914, ch. xvi.

term of this loan was to be forty-five years. The customs revenue, the first charge on the salt tax and the four specified likin revenues were named as securities.

In this connection, it must be emphasized that the object of contracting a large loan for the payment of the Japanese indemnity was twofold: (1) to get back Wei-hai-wei from Japanese control, and (2) to cancel all the indemnity interest within the six years. However, both of these objects were badly defeated. For, in the first place, China was forced to lease Wei-hai-wei to England soon after its restoration by Japan. This means merely the substitution of one foreign power for another in the control of the port. Secondly, the total interest on the indemnity for six years would amount to only a little over 10,000,000 taels, whereas the total interest on the Anglo-German loan of 1898 for five years amounted to 21,500,000 taels. Moreover, there was no discount permitted in the payment of the indemnity, whereas China actually received only 83 per cent of the proceeds from the 1898 Anglo-German loan, which meant a further loss of 10,000,000 taels. In addition, the indemnity was calculated in Kuping taels, whereas the 1898 Anglo-German loan constituted a gold debt. This means that China had to sustain a still further loss due to the fluctuations in the rates of exchange.

Even more onerous and crushing than this Japanese indemnity was the Boxer indemnity of four hundred and fifty million Haikwan taels. This huge sum was imposed upon China as one of the severe punishments for the Boxer trouble which occurred in 1900. According to the Treaty of Peace concluded on September 7, 1901, China agreed to pay to the Powers an indemnity of 450,000,000 Haikwan taels, which represents the total amount of the indemnities for states, companies or societies, private individuals, and Chinese who suffered during the Boxer uprising in their

person or property through being in the employment of foreigners.[1] This indemnity constituted a gold debt bearing 4 per cent interest and calculated at the rate of the Haikwan taels to the gold currency of each country as follows:

One Haikwan tael =	marks	3.055
	Austria-Hungary crown	3.595
	gold dollar	0.742
	francs	3.750
	pound sterling	3s 0d
	yen	1.407
	Netherland florin	1.796
	gold rouble (17.424 dolias fine)	1.412

The Peace Treaty also stipulated that the indemnity should be secured by (1) the customs revenue, (2) the revenues from native customs within 150 miles of the treaty ports, and (3) the salt tax.

The whole sum was divided into five serials and the payment was spread over a period of thirty-nine years ending in 1940.

Serial A—taels 75,000,000, this sum to be paid within a period from 1902 to 1940.

Serial B—taels 60,000,000, this sum to be paid within a period from 1911 to 1940.

Serial C—taels 150,000,000, this sum to be paid within a period from 1915 to 1940.

Serial D—taels 50,000,000, this sum to be paid within a period from 1916 to 1940.

Serial E—taels 115,000,000, this sum to be paid within a period from 1932 to 1940.

[1] For a detailed account of the peace negotiations and settlements, see *U. S. Foreign Relations*, 1901, Appendix; *China*, no. 1 (1901); *British and Foreign State Papers*, vols. of 1902, 1903 and 1904. For the Peace Treaty of 1901, see *Treaties between China and Foreign States*, *op. cit.*, pp. 111-149.

According to the above schedule, the annual payment for amortization and interest is as follows:

A—taels 18,829,500 to be paid from the first year to the ninth year.

B—taels 19,829,300 to be paid from the tenth year to the thirteenth year.

C—taels 23,283,300 to be paid in the fourteenth year.

D—taels 24,483,800 to be paid from the fifteenth year to the thirtieth year.

E—taels 35,350,150 to be paid from the thirty-first year to the thirty-ninth year.

So far the annual charges of the indemnity have been fully paid off from the revenues accruing from the maritime and native customs. No loan has been contracted for the payment of the Boxer indemnity except in 1905, when the £1,000,000 loan was concluded with the Hongkong and Shanghai Bank and the Deutsch-Asiatisch Bank for the exchange-adjustment of the indemnity.[1] This loan was paid off in 1915.

The imposition of such a crushing indemnity upon China must be characterized as decidedly unfair. For the Boxer troubles were due principally to the aggressions of the foreign powers, culminating in the so-called "Scramble for Concessions" in 1898 and 1899, and were largely instigated by a few Manchu princes who sought to divert the popular wrath against the dynasty to foreigners residing in China. The amount is excessive in that it covers much more than the direct or actual losses incurred. The weight of the indemnity became still greater when it was made a gold debt, thus adding considerably to the financial burden of the Chinese nation. As a consequence the Boxer indemnity has

[1] Chia Sze-yi, *op. cit.*, vol. iv, pp. 30-31; *China Year Book*, 1914, p. 345.

greatly impeded the progress of China. It is much to be desired from every point of view that the remaining portion of the Boxer indemnity should be entirely cancelled.

That the Boxer indemnity is excessive has been fully realized by the United States, the only country that has virtually repudiated the unjust action taken by the representatives of the other powers. The returning of the surplus portion of the Boxer indemnity to China by the United States will stand as one of the most conspicuous proofs of international friendship and justice. It was at the suggestion of President Roosevelt that the Congress of the United States adopted a joint resolution in 1908, authorizing the President to modify the indemnity bond from $24,440,000 to $13,655,492.69 and interest at 4 per cent, and to remit the remainder of the indemnity as an act of friendship, such payment and remission to be made at such time and in such manner as the President might deem just.[1] This act of friendship was most highly appreciated by the people of China. A special envoy was sent to the United States to tender in person the thanks of the government. At the same time, the government resolved to devote the returned indemnity fund to the education of Chinese youths in the American colleges and universities in order thus to cement the friendship between China and the United States.

According to the original plan, one hundred students were to be sent over annually during the first four years; thereafter and until the end of the indemnity period, fifty students were to be selected every year.[2] Soon afterwards this plan was found to be impracticable. The difficulties in choosing well-qualified students led to the establishment of the Tsing-hua College in Peking in 1911, the principal object of which is to prepare students for admission to the

[1] *United States Foreign Relations*, 1908, pp. 64-75.

[2] Hornbeck, S. K., *op. cit.*, pp. 400-401.

American colleges and universities. At the present time there are about five hundred students in the college, which sends over to the United States about fifty of its graduates annually. The good results of this magnanimous act on the part of the United States have been well stated in an article in *The China Press* by Mr. Julean H. Arnold, Commercial Attaché to the American Legation in China:

> There is one asset which Americans hold in China, the equal to which is not to be found in any other foreign country in the world. This is the good-will of the Chinese people. I have travelled extensively all over this vast country and have found that no other people on the face of this earth occupy a warmer place in the hearts of the Chinese people than do the Americans. . . . The remission of a substantial portion of the Boxer Indemnity has probably resulted, more so than any other single act on the part of any foreign nation in its relation with China, in winning the esteem and respect of the Chinese people . . . .[1]

China's declaration of war against Germany on August 14, 1917, has brought to the fore many vital diplomatic problems, among them the question of the Boxer indemnity. Almost at the beginning of China's entrance into the war the allied nations, including the United States, Great Britain, France, Japan, Italy and Portugal, definitely agreed to the postponement for five years of the payment of the Boxer indemnity due them, while Russia consented to the postponement of the payment of one-third the indemnity during that period. But this temporary postponement of the indemnity payment may prove a doubtful blessing to the Chinese people. For in the first place, the money accruing from the postponed payment may be misappropriated, as the civil struggle over a certain constitutional question is still

[1] *China Press*, Special Supplement, October 26, 1915, p. 69.

raging in the country. Secondly, when the payment of the indemnity is resumed, the price of silver may be considerably lower than it is now, thus involving China in an additional loss.[1] For China is a silver country and has to pay the indemnity in gold. These apprehensions would, however, all be removed if the Allies could agree to the cancellation of the remainder of the Boxer indemnity.

[1] The high price of silver during the last few years has been due primarily to two causes. First, the silver production of the world has been temporarily curtailed. Second, there was a great demand for silver for the purchase of raw materials in China by the Allied Powers.

CHAPTER III

Railway Loans

Railways in China may be classified under four heads: first, railways built by the government without foreign financial or technical help, such as the Peking-Kalgan railway; second, railways built by private Chinese companies, such as the Sun-ling railway; third, railways built by foreign governments, such as the Chinese Eastern railway; and fourth, railways built by foreign financial syndicates with or without foreign control, such as the Peking-Mukden railway and the Tientsin-Pukow railway. Railways belonging to the first and second classes are few in number and are relatively unimportant, while those of the third and fourth classes are significant from the point of view not only of international politics, but also of their financial arrangements. It is with railways of these latter classes that we have to concern ourselves in the present chapter.

Railway enterprises in China began in 1875 when the Shanghai-Woosung line, built by foreigners, was completed.[1] But the struggle for railway concessions did not commence until 1895, after China had been defeated by Japan and her impotence revealed. In that year, Russia, with the help of Germany and France, forced Japan to restore the Liao-tung Peninsula to China. She also acted as

[1] For a detailed account of the railway development in China, see Kent, P. H., *Railway Enterprise in China*, London, 1907; M. C. Hsu, *Railway Problems in China*, New York, 1915; and *Far Eastern Review*, volumes from 1908 on.

the sole guarantor of the French-Russian loan to China of four hundred million francs.[1] Utilizing these instances as signs of Russian friendship for China, Russia induced China to conclude the famous Cassini convention, whereby Russia was to have the privilege of constructing a railway across Manchuria to connect her Siberian and Ussuri system.[2] At the same time, France succeeded in securing China's consent to extend her Annam railway system into Chinese territory.[3] During the period of the so-called "Scramble for Concessions" in 1898 and 1899, Germany secured the railway rights in Shan-tung; Russia, the permission to extend the Chinese Eastern railway to Port Arthur and Talienwan; France, the option to construct the Lungchow-Nanning line; while Great Britain obtained a number of railway concessions in the Yangtze valley, in addition to the guarantee for the non-alienation of that region to any other power.[4] The option to construct the Tientsin-Pukow line was also given to the Germans and the British. At about the same time, the Peking Syndicate, an Anglo-Italian combination, secured certain mining and railway rights in Shansi and in the part of Honan north of the Yellow River; while the Russo-Chinese Bank was granted a railway concession from Chingting-fu to Taiyuan-fu.[5]

While the various powers were struggling for railway concessions in China, her far-sighted statesmen were also advocating the construction of certain essential lines in the country. One of the most powerful advocates was the late Chang Chi-tung, then viceroy of the Hukuang provinces. In February, 1896, he succeeded in organizing a Chinese

[1] Chia Sze-yi, *op. cit.*, vol. iv, pp. 20-21.

[2] Kent, *op. cit.*, p. 46 *et seq.*

[3] *Documents diplomatiques, Chine*, 1894-1898, pp. 16-19.

[4] *China*, no. 1 (1899), pp. 12-30.

[5] Hsu, M. C., *op. cit.*, pp. 34-45.

company for the construction of a railway between Lukowchiao and Hankow. As no adequate capital, however, was forthcoming, recourse had to be taken to other sources.[1] In May, 1897, a Belgian syndicate, La Société d'Étude des Chemins de fer en Chine, made a lower bid than the American and British capitalists, and thereby secured the option to construct the line. In this connection, it must be emphasized that in the competition the Belgians were backed by the Russian and French Ministers and the Russo-Chinese Bank.[2] On the ground of the "most-favored-nation" clause, the British and German Ministers protested against the transaction, but in vain. The line was completed and opened to traffic in 1905. In 1909, however, the Chinese government obtained absolute possession of the line by buying out the Belgian interests.

When the American financiers were forced to retire from the Peking-Hankow deal by the Belgian syndicate in 1897, the Chinese government invited them to undertake the Canton-Hankow line. An agreement was signed in April, 1898, with the American China Development Company by Dr. Wu Ting-fang, then Chinese Minister to the United States.[3] In 1900, a supplementary agreement was concluded stipulating that "the object of making this supplementary agreement of equal force with the original agreement is to permit the benefits being transmissible by the American Company to their successors or assigns, but the Americans cannot transfer the rights of this agreement to other nations or people of other nationality."[4] However, in spite of this specific stipulation, the American China Development Com-

[1] *China*, no. 1 (1899), pp. 87-89.

[2] *Documents Diplomatiques, Chine*, 1898-1899, pp. 140-146.

[3] *China*, no. 1 (1899), pp. 336-339.

[4] *The Canton-Hankow Railway Contracts*, published by the Irving Press, New York, 1900.

pany permitted the Belgians to obtain a controlling interest in the company and to direct its policies and activities. The grievances of the Chinese government against this illicit transaction of the American China Development Company were clearly set forth in a protest presented to the American Secretary of State by Mr. Chen-tung Liang-cheng, the Chinese Minister at Washington on December 22, 1904.[1] The correspondence reads in part as follows:

Sir: I have been instructed to inform you that it is the decision of the Imperial Chinese Government to cancel and annul the agreements made with the American China Development Company, bearing date April 14, 1898 and July 13, 1900.

This step has been forced upon the Imperial Chinese government by the Company which leaves the Imperial government no alternative. Article 7 of the supplemental agreement of July 13, 1900, stipulates that "the Americans can not transfer the rights of these agreements to other nations or people of other nationality." In spite of this plain provision and of the earnest opposition of the representatives of the Imperial government, a majority of the shares of the Company's stock has been transferred to Belgians and other foreigners and the control of the Company has passed into other than American hands. The representatives or officials of the Company have promised to have these shares held by foreigners in violation of the agreements retransferred to bona fide American stock-holders, but they still remain in foreign hands.

Article 14 of the agreement of April 14, 1898, binds either party not to impair in any manner or to any extent the value of the obligations created by and under the contract. The said company has sought, against the protest of the Imperial government and in violation of the terms of the agreements, to compel the trust company in whose hands the bonds have been deposited to deliver a large portion of them to the development

[1] *U. S. For. Rel.*, 1905, pp. 124-134.

company. The said company has sent to China a person as its representative who does not represent the American stockholders, and he has taken without authority from the proper representatives of the Imperial government the whole charge of the railroad and its affairs contrary to the terms of the agreements. The amount of money spent on the Kwang-chow section of the railroad has far exceeded its estimates. The engineers employed on the road have taken advantage of their positions to go into business for their own profit. The company's foreign employees have repeatedly committed murder by the reckless use of firearms, and some of them have absconded with all the money in their charge. No attention has been paid to the demands for the surrender of the murderers or the return of the misappropriated money. These are some of the flagrant violations of the right of China to exercise supervision over the road and its employees. Repeated warnings from the official representatives of the Imperial government against the outrageous course pursued by the company in its dealings with the government and the people of China appear to have fallen on deaf ears. . . . .

The American government sought to defend the American China Development Company, but in vain.[1] The agreements were finally cancelled in return for a compensation of $6,750,000 gold to the company.[2]

The failure of the American China Development Company created a great suspicion in the minds of the Chinese people regarding American enterprises in China, especially as the controlling interest of the company was bought over by the Belgians, who were considered as the tools of Russian diplomacy. This unfortunate episode was very largely responsible for the reluctance on the part of the Chinese officials to admit American interests into the Hu-

[1] *U. S. For. Rel.*, 1905, pp. 125-135.

[2] *Ibid.*, 1905, p. 135.

kuang railway loan. Mr. E. H. Conger, then American Minister to China, reported to the State Department as follows: "I believe the Chinese government is sincere in its expressed desire to favor American enterprises of this kind (railway enterprises) but the outrageous action of the American China Development Company with the Hankow-Canton line has largely destroyed the faith of the Chinese in our capitalists." [1]

The Hukuang railway loan negotiations began, when early in 1909 China approached the British and Chinese Corporation for a loan to construct the Canton-Nankow and the Hankow-Szechuan lines.[2] During the negotiations, Mr. J. O. P. Bland, representing the British and Chinese Corporation, insisted on inserting the Canton-Kowloon terms in the agreement, while the late Chang Chi-tung, the railway director of the two lines, held that the Canton-Kowloon terms were onerous and excessive and that the Tientsin-Pukow terms were far preferable. Failing to come to a satisfactory agreement with the British and Chinese Corporation, Mr. Chang Chi-tung turned to a group of German capitalists. The negotiations were successful and a preliminary agreement with a German syndicate was subsequently signed. Alleging that China had broken her promise to the effect that if China should desire to construct a Hankow-Szechuan line and her capital were insufficient, she would apply to the British and American capitalists for all the necessary money, the British Minister at Peking protested against this transaction. In reply to this protest, Mr. Chang

[1] *U. S. For. Rel.*, 1909, p. 147.

[2] For a detailed account of the negotiations for the Hukuang railway loan, see *China Year Book*, 1914, pp. 233-5; *Far Eastern Review*, April, 1910, pp. 523-8, June, 1911, *passim*, August, 1911, pp. 82-88, and Jan., 1914, pp. 290-307; and J. O. P. Bland, *Recent Events and Present Policies in China*, Philadelphia, 1912, pp. 322-5.

Chi-tung maintained that since the British syndicate had refused to accept terms similar to those offered by the Germans, their preferential rights were canceled. Diplomatic protests and recriminations followed. Finally the question was settled at the Berlin Conference of the Bankers, when the Hongkong and Shanghai Banking Corporation and its French associates agreed to combine with the Germans to negotiate a loan to cover not only the Canton-Hankow road but also the Hankow-Szechuan line. The inter-group agreement stipulated that the Canton-Hankow line was to be constructed by the Anglo-French group with a British chief engineer, whereas a German chief engineer was to take charge of the Hupeh section of the Hankow-Szechuan line.

On June 6, 1909, a preliminary agreement on the basis of the Tientsin-Pukow terms was concluded between China and the tripartite group for a loan of £5,500,000. Four days after the conclusion of this preliminary agreement, the American Minister at Peking protested against its ratification on the ground that an American syndicate had secured a preferential right to finance the Hankow-Szechuan line equally with the British.[1] The American claim to participation in the Hukuang loan was based on the following communiqué from the Peking Foreign Office to Minister Conger, dated August 15, 1903, which reads in part as follows:

> That if in the future it should appear that the capital was not sufficient or foreign capital ought to be borrowed, since British and American companies had successively applied for concessions to build the road, when the time came application could be made to the British and American companies. In short, when companies of various nationalities apply to China for railway concessions it must always remain with China to decide the matter. It is not possible to regard an application not granted

[1] *U. S. For. Rel.*, 1909, pp. 155-6.

as conferring any right or being proof that thereafter application must first be made to the persons concerned.[1]

Commenting on this communication, Mr. Henry P. Fletcher said: "The Department will note that Mr. Conger, in reporting this matter, placed a stronger construction on these assurances than would seem to be justified by the translation inclosed." [2] Holding that Mr. Conger's request that Americans be allowed to undertake the construction of the Hankow-Szechuan railway had never been granted by China, and mindful of the bitter experience in connection with the American China Development Company, Director Chang Chi-tung strongly objected to the American participation in the Hukuang loan.[3]

It was at this juncture, when Director Chang Chi-tung refused to deal with the American capitalists, that on July 15, 1909, President Taft sent his extraordinary message to Prince Hsun, Regent of the Chinese Empire, laying stress on the American claims and adding:

I have an intense personal interest in making the use of American capital in the development of China an instrument for the promotion of the welfare of China and an increase in her material prosperity without entanglements or creating embarassments affecting the growth of her independent political power and the preservation of her territorial integrity.[4]

At the same time, the American representatives in London, Paris and Berlin sought to gain admittance into the Anglo-French-German financial group.[5] Finally, on August 17, 1909, China and the other governments concerned agreed to permit American participation in the Hukuang loan by in-

[1] *U. S. For. Rel.*, 1909, pp. 156-7.
[2] *Ibid.*, p. 154.
[3] *Ibid.*, 1909, pp. 177-8.
[4] *Ibid.*, pp. 178-180.
[5] *Ibid.*, p. 144 *et seq.*

creasing the amount from £5,500,000 to £6,000,000, a quarter of which was assigned to each of the four financial groups.

The admission of the American capitalists into the international financial group did not settle all the difficulties. On the contrary, it created quite a few additional problems for solution. The first of these was the demand made by Japan and Russia that they, too, should be included in the consortium. Their demand, however, was refused. Then came the problem of arranging for the purchase of foreign materials and assigning the different sections of the lines to the various groups for construction. The solution of this problem was extremely difficult, as all of the powers concerned were anxious to get the most out of the transaction. Negotiations for settlement began soon after the inclusion of the American capitalists in the international group, but no agreement was reached until May 23, 1910, when the four groups agreed that the order for materials should be equally divided among them. Moreover, the British were to appoint the chief engineer for the Hupeh section of the Canton-Hankow railway; concerning the Hankow-Szechuan line, Germany was to appoint the chief engineer for the first 800 kilometers, the United States for the next 400 kilometers and also a sub-engineer for the adjoining 200 kilometers of the 800 kilometers allotted to Germany, and England and France were to divide the remaining 1,200 kilometers equally between themselves.[1] They further agreed that if any additional mileage were to be constructed beyond the 2,400 kilometers, making a total of not exceeding 3,000 kilometers, the additional engineering rights should be equally divided among the English, the French and the American groups; and that if the additional construction were to exceed 3,000 kilometers, all such additional engineering rights above 3,000 kilometers should be equally

[1] *Far Eastern Review*, vol. viii, p. 83.

divided among the four groups. The final agreement between China and the international group was signed on May 20, 1911.[1] Thus the protracted Hukuang railway-loan controversy which had been a great obstacle to railway developments in central China, came to an end.

Perhaps the account of the railway-loan negotiations and politics is incomplete without mentioning the Manchurian Railway Neutralization scheme proposed by Secretary Knox in 1909. At the time when Mr. Knox proposed the neutralization scheme three railway systems were, as they still are, operating in Manchuria: the Russian Chinese Eastern Railway in the north, the North China Government Railway in the middle, and Japan's South Manchurian Railway in the south. In the Portsmouth Treaty, Japan and Russia declared their intention "not to obstruct any general measure, common to all nations, which China may take for the development of commerce and industry in Manchuria."[2] But both Japan and Russia have failed to live up to their treaty pledges and have been resorting to discriminating and obstructive practices.[3] For instance, the vetoing of the Fukumen railway scheme and the interdiction of the Chinchow-Aigun railway project are incidents too recent to need mention. The declared purpose of Mr. Knox's neutralization scheme was "to preserve the undisturbed enjoyment by China of all political rights in Manchuria and to promote the development of those provinces under a practical application of the policy of the open door and equal commercial opportunity."[4] According to Mr. Knox's

[1] *Railway Loan Agreements, op. cit.*, pp. 547-605.

[2] *Japan Year Book*, 1907, pp. 335-6.

[3] See S. K. Hornbeck, *Contemporary Politics in the Far East*, New York, 1916; L. Lawton, *The Empires of the Far East*, Boston, 1912; and T. Millard, *Our Eastern Question*, New York, 1916.

[4] *U. S. For. Rel.*, 1910, pp. 234-6.

scheme, the railways belonging to Japan and Russia in Manchuria were to be sold to China. For this purpose, China was to borrow from Great Britain, Germany, France and the United States, while Japan and Russia were to retain an interest. It is thus evident that the success of the scheme depended not only on the consent of China and the cooperation of Great Britain, Germany and France, but also on the acquiescence of Japan and Russia. The plan was favorably received in China and Great Britain, but the determined opposition on the part of Japan and Russia rendered the project impracticable.

Thus far we have been dealing with railway-loan negotiations and railway politics. We must now turn our attention to the main features of China's railway-loan agreements. It is not necessary to present the details of them, for they have been more or less fully treated in other works on the subject.[1] However, a clear insight into the problem may be gained by a discussion of the three principal types of such agreements. The first two mentioned below differ from each other in the degree of control given to foreign capitalists over the roads built, while the third is different from the others in that it is based on the "percentage contract construction system" which has only recently been introduced into China.

The first type of railway loan agreement may be represented by the Peking-Mukden agreement concluded with the British and Chinese Corporation for a loan of £2,300,000 at five per cent interest, on Deecember 10, 1898.[2] The purpose of this loan was the extension of the line to

[1] See *Railway Loan Agreements* published both in Chinese and in English by the Ministry of Communications, Peking, 1916; Hsu, M. C., *Railway Problems in China*, New York, 1915; and Kent, P. H., *Railway Enterprise in China*, London, 1907.

[2] For the loan agreement, see *Railway Loan Agreements*, *op. cit.*, pp. 93-117.

Hsin-Ming-Tung and of a branch line to Ying-tzu as well as the payment of certain old debts. The salient points of the loan agreement are as follows:

1. The loan was to be the first charge upon the security of the entire property between Peking and Shankaikwan, and on the freight and earnings of the new lines when constructed.
2. In addition to the above the Chinese government declared itself responsible for the payment of the principal and interest at due date; and in the event of the Chinese government being unable to pay the principal and interest, the railway line and its entire property were to be handed over to the Corporation.
3. No further loan was to be raised on the same security except through the Corporation.
4. The life of the loan was to be forty-five years, during which time the lines in the agreement were not to be alienated.
5. During the currency of the loan the chief engineer of the railway was to be a British subject, and the principal members of the railway staff were to be Europeans, who could be appointed by the Chinese administrator-general, but dismissed only in the event of misconduct or incompetency, after consultation with the chief engineer.
6. A European accountant was to be appointed by the syndicate with full power to organize and to direct the keeping of railway accounts, and to act with the administrator-general and the chief engineer in the supervision of receipts and expenditures.
7. Repayment of principal was to begin with the sixth year in forty equal annual installments. Extra drawings for redemption might be called by paying a 20 per cent premium. China engaged herself not to re-

deem or to convert the loan except as provided in the agreement.

8. The price of the loan to China was to be 90, but the Corporation had authority to reduce it to 88 at its discretion in case the market proved unfavorable.

Contrasted with the Peking-Mukden agreement, which is typical of all the railway loan agreements concluded between 1898 and 1908, is another type of agreement modelled after the Tientsin-Pukow railway loan agreement concluded on June 13, 1908.[1] According to this agreement the amount of the loan was fixed at £5,000,000, bearing 5 per cent interest, and issued in two installments: the first installment at 93 and the second at 95½. It was to run for thirty years, amortization to begin after the tenth year in half-yearly installments at a premium of 2½ per cent and at par after twenty years. The more important features of the Tientsin-Pukow contract, as contrasted with the essential provisions laid down in the Pekin-Mukden railway loan agreement, may be stated as follows:

1. The railway itself was not mortgaged as collateral security as in the case of previous loans. The loan was guaranteed by the government and secured on certain internal revenues of Chih-li, Shantung and Kiangsu. However, the debt service was to be met from the earnings of the road.
2. Instead of paying the usual 20 per cent of the profits of the railway, China paid a lump sum of £200,000 as commission to the Anglo-German syndicate out of the first issue of the bonds.
3. China was given the power to appoint experienced British and German chief engineers, acceptable to the Anglo-German syndicate. These engineers were to be subordinate to the control of the Chinese managing

[1] *Railway Loan Agreements, op. cit.*, pp. 395-421.

directors of the two sections, respectively. In the employment and dismissal of the technical employees of the line, the managing director and the chief engineer had to concur and submit their differences of opinion to the director-general for decision. China also had the right to appoint a European chief engineer to administer the entire line after construction without reference to the syndicate.

4. There was no provision for the services of a foreign accountant to certify payments, as in the case of the other loans. The director-general retained in his hands complete control of the funds derived from the loan, subject, however, to the condition that the loan funds should be drawn upon a requisition signed by the managing-directors, who were to certify the purpose for which the money was required.
5. The purchase of materials was also arranged for on a basis favorable for China. On due authorization by the managing-directors, the syndicate was to purchase the materials required on terms most advantageous to the railway and to charge the original net cost of the same plus a commission of five per cent. However, after paying the above stipulated commission to the syndicate, the railway administration had the right to avail itself of the services of other agents in China and abroad should it see fit to do so.

The Sha-Hsing agreement represents a third type, which is quite different from the two typical agreements already discussed.[1] It proceeds on the basis of the "percentage contract construction system," which means that a contract is made by the government with an experienced contracting party (usually an engineering firm or firms) of high financial standing, to finance and to construct a road, providing

[1] *Railway Loan Agreements, op. cit.*, pp. 791-827.

that a certain percentage of profit shall be allowed to the contractor over the cost of construction and equipment, and that the government is to supervise the entire work both during and after the construction. The final agreement for the £10,000,000 loan was concluded on July 25, 1914, between China and Messrs. Pauling and Company for the construction of a railroad between Shasi and Shingyi-fu. According to the loan agreement, the railway is to be built by contract. Concurrent with the Chinese managing-director, the firm of British engineers shall have power to draw up plans and to supervise the work during construction; but all specifications and costs must be approved by the Chinese authorities. The railway accounts are to be in charge of a British chief accountant and his associates; but all receipts and payments must be first authorized by the Chinese managing-director. The loan is to run for a period of forty years and bears an interest of five per cent. It is secured by the railway and the properties connected therewith, and is also guaranteed by the government.

The conclusion of the Shasi-Shingyi-fu railway loan agreement marks a decided advance in railway financing in China. Hitherto the construction of important railways has been monopolized by the "official banking groups" backed by dollar diplomacy.[1] The Shasi-Shingyi-fu agreement may be considered as the first reaction against such a monopoly and as a first step to free China from the shackles of the so-called "sphere of influence." To what extent this new innovation will succeed is hard to tell, as the work of construction has been largely impeded by the great world war just concluded. We can only hope that "the percentage contract construction system" has come to stay and that it will deal a death-blow to the monopoly of the "official banking groups" due to the existence of the "sphere of influence."

[1] For a detailed discussion of this point, see Hsu, M. C., *Railway Problems in China, passim.*

CHAPTER IV

General Loans

Aside from the war and indemnity loans and loans for railway purposes, there are a number of foreign loans which may be designated as "general loans." This category includes the expedition loans concluded between 1865 and 1880, the military loans (except those of 1894 and 1895, which have already been discussed), the reorganization loans, and the industrial loans not for railway purposes.

The first foreign loan was concluded in China in 1865, when a sum of £1,431,664 2s was borrowed from a London bank for indemnifying certain Russian losses incurred in Ili.[1] This was followed by a series of three loans concluded for expedition purposes.[2] The first of these was concluded in 1867 in order to finance China in sending an expeditionary force into Ili. The amount of this loan was £1,000,000 and was secured by the Shanghai customs revenue. A second expedition loan was concluded in 1874, when China undertook to send a small armed force to pacify Formosa. The loan amounted to 2,000,000 taels, bearing interest at 8 per cent. It was likewise secured by the Shanghai customs revenue. Both of these loans were raised from among the foreign merchants at Shanghai. The third of the expedition loans was concluded in 1877 for the pacifi-

[1] Chia Sze-yi, *The Financial History of the Republic*, vol. iv, pp. 16-17; *The Writings of Liang Chi-chiao*, vol. x, pp. 306-307.

[2] *Ibid.*

cation of the Southwest. This loan was obtained from the Hongkong and Shanghai Bank and was secured by the customs revenue of Canton, Wenchow, Shanghai and Hankow. It amounted to 5,000,000 taels and bore interest at 15 per cent.

The military loans constitute the second topic of our discussion. Under the old régime, three foreign loans were concluded for naval purposes.[1] The first of these was concluded with Germany in 1878. The loan amounted to 2,500,000 marks bearing interest at 5½ per cent. It was secured by the customs revenue. In the following year a second naval loan was concluded with England. The amount of this loan was 16,150,000 taels at 7 per cent interest. Like the previous loan, it was secured by the customs revenue. The third naval loan was concluded with Germany in 1887. The loan amounted to 5,000,000 marks bearing interest at 5 per cent. It was also secured by the customs revenue. All the proceeds of these loans were spent in the building of a navy which was practically destroyed by the Japanese during the Chinese-Japanese war in 1894 and 1895.

Since the establishment of the Republic in 1912, several foreign loans have been concluded for military purposes.[2] The first of these was contracted in 1913 with Arnhold, Karberg and Company. The loan amounted to £300,000 bearing interest at 6 per cent. It was issued at 95 and was secured by the tax on title deeds. The term of the loan expired in 1918. In the latter part of 1913, when great difficulties had been placed in the way of effecting the large reorganization loan, the government concluded two Austrian loans, one for £2,000,000 and the other for £1,200,000.

[1] Chia Sze-yi, *op. cit.*, pp. 17-18.

[2] *Ibid.*, 46-47; *China Year Book*, 1916, ch. xvi.

Ostensibly these loans were for the purpose of building a number of torpedo boats in the Austrian dockyards; but a substantial portion of the proceeds went to replenish the empty treasury. The conditions of the two loans were similar. Both of them were issued at 92 and bore interest at 6 per cent. They were secured by the tax on title deeds and were to run for five years. In 1914, a third Austrian loan was concluded for the purchase of munitions. The loan amounted to £500,000, bearing interest at 6 per cent, with the issuing price at 92. It was for a term of four years and was also secured by the tax on title deeds.

The third category of the general loans includes those concluded for reorganization purposes. These are two in number: the currency loan of 1911 and the reorganization loan of 1913. The 1913 reorganization loan itself is of sufficient importance to occupy a separate chapter. Hence our present discussion will be confined to the currency loan of 1911. The movement for currency reform began soon after the Chinese-Japanese war in 1894 and 1895.[1] But no definite step was taken until 1911, when a £10,000,000 loan was arranged with an international banking group composed of financial interests in Great Britain, Germany, France and the United States.[2] According to the loan agreement signed on April 15, 1911, the loan was to be issued at 95, bearing interest at 5 per cent; it was to run for forty-five years and was secured by the wine, tobacco, production and consumption taxes in Manchuria and by the new surtax on salt in the provinces; China was to be assisted in reforming her currency by a representative of the group; and preference was to be given to the group for further loan or loans for industrial developments in Manchuria. Owing to the outbreak of the revolution in 1911, the loan

[1] Wei, W. P., *The Currency Problem in China*, pp. 52-132.

[2] *China Year Book*, 1912, pp. 288-296.

was not floated; but £400,000 has been advanced to the Chinese government for plague and industrial expenses in Manchuria.

The industrial loans not for railway purposes constitute the fourth category of the general loans. Under this division we shall briefly discuss the various cable and telephone loans, the industrial loan of 1914 and the Huai conservancy loan of 1917. The first cable loan was concluded in 1901 with the Eastern Extension and the Great Northern Telegraph Company for the construction of the cable lines between Tientsin and Shanghai *via* Chefoo.[1] The loan amounted to £210,000, bearing interest at 5 per cent. It was for a term of thirty years and was secured by the cable lines constructed. In the following year a supplementary cable loan was contracted with the same company in order to complete the construction of the Shanghai-Chefoo-Tientsin cable lines. The loan amounted to £48,000 and bore interest at 5 per cent. It was to run for twenty-nine years and was also secured by the cable lines constructed.

In 1911 the Board of Communications contracted a loan of £500,000 with the Eastern Extension and the Great Northern Telegraph Company for the improvement of the cable and telephone services under its direct control. The loan bore interest at 5 per cent and was for a term of twenty years. It was secured by the receipts from the cable and telephone services in addition to a guarantee undertaken by the Chinese government. In 1915 a loan of £42,300 was contracted with a British business house at Tientsin for the improvement of the Tientsin telephone service. The loan bore interest at 7 per cent and was for a term of nine years. It was also secured by the receipts from, and the properties of, the Tientsin telephone services. The industrial loan of

[1] For the cable and telephone loans, see Chia Sze-yi, *op. cit.*, vol. iv, pp. 92-96.

1914 was borrowed from the *Banque industrielle de Chine* for the promotion of certain industries in the country.[1] The amount of the loan was 300,000,000 francs, issued at 81 and bearing interest at 5 per cent. The loan was to run for fifty years, payment of the principal beginning with the sixteenth year. It was secured by the receipts from the various industries undertaken and by the wine and tobacco taxes.

The Huai conservancy loan is the last of the general loans to be discussed in this chapter.[2] Negotiations for this loan began soon after the establishment of the National Irrigation and Water Conservation Bureau in December, 1913, for the purpose of preventing the recurrence of flood, of improving the water courses and of reclaiming the agricultural lands in the country. In January, 1914, a preliminary agreement was concluded between the Chinese government and the American National Red Cross.[3] This agreement stipulated that the American National Red Cross was to lend to China $2,000,000 gold or such sum as might be found necessary for the conservation of the Huai rivers; that this loan was to bear interest at 5 per cent with the price of issue "to be fixed according to the most favorable market price of the Chinese government bonds"; and that the work was to be undertaken under the percentage contract system by an approved construction company. The conclusion of this agreement led to the appointment of a board of engineers composed of Colonel William L. Siebert, Mr. A. P. Davis, Professor D. W. Meade of Wisconsin and Mr. L. D. Cornish, to investigate the nature of the work to be undertaken, to determine its cost and to ascertain the amount of revenue to be derived from the

[1] Chia Sze-yi, *op. cit.*, p. 47; *China Year Book*, 1916, ch. xvi.

[2] *Far Eastern Review*, vols. xi, xii, xiii and xiv, *passim*.

[3] *Ibid.*, vol. xi, p. 447.

various sources after the completion of the work. After a three months' stay in China, the party returned with favorable recommendations. Owing to the outbreak of the world war in 1914, however, nothing further was accomplished.

After a lapse of about two years, a new contract was signed on April 19, 1916, with the American International Corporation for a loan of $2,500,000 gold. According to the contract, the loan was to be issued at 90 and bore interest at 7 per cent; it was for a term of thirty years; and the conservancy work was to be undertaken by Messrs. Siem and Cary. But no sooner had this contract been concluded than the American International Corporation sought to modify the agreement so as to admit Japanese participation. The Chinese government did not consent to such a proposal, and a deadlock consequently resulted. It was not until November 20, 1917, that the Chinese government and the American International Corporation agreed to the following modifications: (1) the amount of the loan was to be increased to $6,000,000 gold, of which five-twelfths was to be floated in Tokio and seven-twelfths in New York; (2) with China's approval, the assistant chief engineer and the assistant chief auditor might be Japanese; (3) Japanese construction assistance in the matter of labor, *etc.*, might be allowed, if it should be found necessary; (4) the amortization period was to be reduced to twenty instead of thirty years; (5) the Chih-li section of the Canal was to be included; and (6) the option on the Kiangsu section of the Canal was to be given to the American International Corporation, if foreign capital should be used.[1]

This account of the general loans would be incomplete without mentioning the recent Japanese loans.[2] Most of

[1] *Far Eastern Review*, vol. xiv, p. 7.

[2] For details, see *Far Eastern Review* and *North China Herald*, vols. of 1916, 1917 and 1918.

these were secretly concluded during the Terauchi régime in Japan, chiefly for the purpose of tightening Japan's grip on China.[1] It needs to be pointed out here that none of these loans has ever been submitted to or approved by the Chinese parliament and that, according to newspaper reports, a substantial portion of the proceeds has been spent by the northern military governors in waging the civil war. The following list, taken from the *Far Eastern Review*, is instructive as to the nature and extent of the recent obligations contracted from Japanese sources.[2]

1909 Yokohama Specie Bank to the Imperial Railway Administration representing part payment on that part of the Hsinmintun-Mukden railway lying east of the Liao River. For 18 years at 5 per cent; issue price 93; secured by revenues of the road. Y 320,000.

1909 Yokohama Specie Bank to the Imperial Railway Administration for construction of the Kirin-Changchun railway. For 25 years at 5 per cent; issue price 93; secured by revenues of the road. Y 2,150,000.

1910 Yokohama Specie Bank to the Imperial Railway Administration for redemption of the Peking-Hankow railway. For 10 years at 7 per cent; issue price 97.50. Y 2,200,000.

1911 Yokohama Specie Bank to the Imperial Railway Administration for same as above and for running expenses pending redemption. For 25 years at 5 per cent; issue price 95. Y 10,000,000

1912 Mitsui Bussan Kaisha to the Hankow Water Works and Electric Light Co., for construction purposes, payable in 10 annual installments; interest at 7 per cent; guaranteed by the Minister of Communications. Y 1,000,000.

[1] For the methods employed by the Terauchi government, see "How Japan finances China," *Far Eastern Review*, vol. xiv, pp. 362-364.

[2] *Far Eastern Review*, vol. xiv, pp. 421-422.

1913 Yokohama Specie Bank to the Ministry of Communications for construction of the Shihpingkow-Chengchiatun railway. Y 5,000,000.

1915 May 1—Asiatic Development Co. to the Peking government for general purposes. For 3 years at 6 per cent; issue price 94; secured by certain mining concessions in Hunan and Ankwei and by the profits from brass-melting. Y 5,000,000.

1916 *Nov. 10—Kwangtung loan made by the Bank of Taiwan. Y 600,000.

1916 *Nov. 11—Hankow Paper Mill loan made by the Chinese-Japanese Industrial Development Co. Y 2,000,000.

1916 *Dec. 5—Tientsin Spinning Mill loan made by Okura Gumi. Y 600,000.

1917 *Jan. 15—Nankow Hydraulic Electric Co. loan made by Toa Kogyo Kwaisha. Y 1,000,000.

1917 Jan. 30—Bank of Chosen to Fengtien province for relief of Chinese banks in Mukden, one-half payable in one year and the other half in three years, interest at 6.5 per cent, issue price 95. Y 2,000,000.

1917 *January—Japanese banking group to the Ministry of Communications for redemption of notes of Banks of Communications. For 3 years at 7.5 per cent interest; no discount; secured by 1,500,000 shares of bank stock and $4,000,000 treasury bonds, Japanese obtaining privilege of appointing adviser to Bank and option for future loans. Y 5,000,000.

1917 *February—Japanese banking syndicate to the Kwangtung provincial government, Y 1,300,000 for advances to provincial government and Y 1,700,000 for construction of the Kwangtung cement factory and customs land at Tashatou; secured by the revenue and property of the cement factory and guaranteed by the Kwangtung government. Y 3,000,000.

1917 *May—Kwangtung loan made by Bank of Taiwan, secured by the provincial salt tax. Y 1,500,000.

1917 *Aug. 12—Nanchang railway loan made by Toa Togyo Kwaisha. Y 2,300,000.

1917 Aug. 28—Japanese syndicate to the Bank of China for redemption of bank-notes, secured by $15,000,000 Bank of China notes, for 6 months at 7 per cent interest. Y 5,000,000.

1917 *Aug. 28—Yokohama Specie Bank advance on second reorganization loan for reimbursement of advances made by Bank of China to central government; repayable out of the second reorganization loan if made, otherwise to be repaid in cash in one year; interest at 7 per cent; discount 1 per cent; secured by surplus salt revenue. Y 10,000,000.

1917 *Aug. 28—Shantung loan made by the Japan China Industrial Development Co. Y 1,500,000.

1917 *Sept. 28—Second loan for the Bank of Communications made by the Industrial Bank of Japan, the Bank of Chosen and the Bank of Taiwan. Y 20,000,000.

1917 *Oct. 20—Loan on the Kirin-Changchun railway by the South Manchurian Railway Co. For 30 years at 5 per cent; issue price 91.50; secured by revenue and property of the road. Y 6,500,000.

1917 *Nov. 20—Grand Canal loan of $6,000,000 gold, of which the Industrial Bank of Japan took $2,500,000 gold. Y 5,000,000.

1917 *Nov. 22—Chinese-Japanese Industrial Co. and 10 Japanese banks to the central government for relief of Chih-li flood sufferers, 1 year at 7 per cent interest, secured by revenue of three native customs houses including Dolonor. Y 5,000,000.

1917 China Japan Industrial Development Co. to the Hengchow (in Hunan) Electric Light Co. Y 80,000.

1917 China Japan Industrial Development Co. to the Hsiajen, Hsiaking, and Pinghu in Chekiang. Y 250,000.

1917 China Japan Industrial Development to the Hsiangtau Electric Light Company of Hunan. Y 50,000.

1917 China Japan Industrial Development Co. to the central government for metal refining. Y 50,000.

1918 *Jan. 1—Finance Department, Printing Bureau loan made by Mitsui Bushan Kaisha. For 3 years at 8 per cent, issue price 98. The agreement provides that all materials be bought from the Mitsui Bussan Kaisha, if prices are not higher than those of the competitors. Y 2,000,000.

1918 Mitsui Bussan Kaisha to Tsao Kun, Tuchun of Chih-li, for military purposes, secured by shares of the Kailan Mining Administration. Y 1,000,000.

1918 *Jan. 6—Yokohama Specie Bank second advance on second reorganization loan, repayable out of the second reorganization loan if made, interest at 7 per cent, secured by surplus salt revenue. Y 10,000,000.

1918 Jan.—Japanese syndicate to Tan Hoa-ming, provisional military governor of Hunan, said to be secured by right to co-operate in working iron mines at Taipingshan, Ankwei, and antimony mines at Shuikoushan, Hunan, for 5 years at 7 per cent, issue price 9. Y 2,000,000.

1918 Yokohama Specie Bank to the central government for suppression of plague to be repaid in 10 months, secured by surplus salt revenue. Y 1,000,000.

1918 Jan.—Fukien loan for general purposes, secured by sundry taxes in the province. Y 1,000,000.

1918 Jan.—Mitsui Bussan Kaisha to Chih-li province for purchasing yarns for Chih-li spinners, repayment guaranteed by Ministry of Finance. Y 1,000,000.

1918 Jan. 20—Tai-hei Kunei syndicate to the central government, interest at 7 per cent, issue price 95, additional commission of 5 per cent for unspecified purposes. Y 14,000,000.

1918 Jan. 20—second loan to the Bank of Communications, for 3 years at 7.5 per cent, secured by $25,000,000 in treasury bonds. Money advanced by Bank of Chosen, Bank of Taiwan and Industrial Bank of Japan. Y 20,000,000.

1918 *February—Shihpingkai-Chengchiatun railway loan made by the Yokohama Specie Bank, for 1 year at 7 per cent interest, secured by revenue of road. Y 2,600,000.

1918 *February—Nanjin railway loan made by Toa Kogyo Kwaisha. Y 100,000.

1918 April—Wireless loan made by Mitsui Bussan Kaisha for construction of wireless stations, material to be purchased from Mitsui Bussan Kaisha. Y 3,000,000.

1918 *April 30—Sino-Japanese Exchange Co. to the Telegraph Administration for extension of land lines, interest at 7.5 per cent, discount 1.5 per cent, secured by all telegraph properties not previously pledged. Y 20,000,000.

1918 *May 16—Chih-li provincial loan made by the Bank of Chosen. Y 1,000,000.

1918 *June 18—Kirin-Huaining railway loan by the Bank of Chosen, Bank of Taiwan and Industrial Bank of Japan, for 40 years at 5 per cent interest. Y 20,000,000.

1918 *April 22—Bank of Chosen to Fengtien province for redemption of small coin notes, one-half to be repaid in two years and the other half in three years, interest at 6.5 per cent, issue price 95, secured by stock in Penshihu Collieries owned by Fengtien province. Y 3,000,000.

1918 Loan on Yu-kau mines, Kiangsi province. Y 3,000,000.

1918 July—Yokohama Specie Bank third advance on the second reorganization loan. Y 10,000,000.

1918 July—Kirin forestry loan made by a Japanese banking group, for 10 years at 7.5 per cent interest, no discount, secured by the Kirin and Heilungkiang gold mines and government forests. Y 30,000,000.

* An asterisk marks the loans acknowledged by the Japanese government from October, 1916 to June, 1918.

CHAPTER V

General Loans (Continued)

THE REORGANIZATION LOAN OF 1913—ITS NEGOTIATION AND CONCLUSION

The negotiations for the Reorganization Loan of 1913 began soon after the late President Yuen Shih-Kai assumed office.[1] At that time there was already in existence in Peking an international syndicate known as the Quadruple Group. This group had come to exist through the negotiation and conclusion of the famous Hukuang railway loan and was composed of the financial interests of Great Britain, Germany, France and the United States.[2] The initial step was taken when on February 12, 1912, the government applied to the Quadruple Group for an immediate advance of ten million taels for administrative purposes. The advance was made and the government in turn promised to negotiate with the group for a loan of sixty million pounds, provided that their terms were equally advantageous with those otherwise obtainable. However, it developed soon afterwards that the terms offered by the group were by no means desirable and China had to resort to other sources. Consequently on March 19, a Belgian loan of one million pounds

[1] For details of the negotiations see Chia Sze-yi, *Financial History of the Republic; British Parliamentary Papers*, vols. of 1912; *China Year Book*, 1913 and 1914; *The Far Eastern Reviews* and *The North China Herald*, vols. of 1912 and 1913.

[2] *Cf. supra*, pp. 35-39.

was concluded between China on the one hand and a combined British-Belgian syndicate on the other.[1] The conclusion of this loan called forth a strong protest from the Quadruple Group alleging that China had violated her promise. This protest was backed up by the Ministers of Great Britain, Germany, France and the United States at Peking. In this connection it is interesting to note that at the instance of the Hongkong and Shanghai Banking Corporation, representing the British interest in the Group, Sir Edward Grey withdrew his support already given to the International Syndicate which had made the one million loan to China and which consisted of a number of banking houses in London and Belgium.[2] Speaking before the National Council then sitting at Nanking, Premier Tang Shao-yi explained that he was forced to contract the new loan because the Quadruple Group had refused to make the advance he requested and because the conditions laid down by the group were too onerous for China to bear.[3] At the end of his speech, Premier Tang appealed to the National Council not to tolerate any form of foreign financial control.

It is thus clear that at least an attempt had been made by the Quadruple Group to secure a certain degree of control over China's finance, and this too with the diplomatic sup-

[1] The Belgian loan of £1,000,000 was signed at Peking on March 19, 1912. It carried an interest of five per cent per annum and was issued at 97. The securities of this loan were (1) the net income and property of the Peking-Kalkan railway and (2) the general revenue of the state. The term of the loan was one year. The additional requirements in the agreement were (1) option to conclude the ten million pounds Reorganization loan on terms equally advantageous with those offered by other parties, and (2) option to conclude any further loan if terms were more advantageous than those offered by other parties. *China Year Book*, 1913, pp. 350–353.

[2] *China*, no. 2 (1912), nos. 1–19 inclusive.

[3] *China Year Book*, 1913, p. 351.

port of the various governments concerned. Meanwhile, Japan and Russia, who had hitherto been silent spectators of the great political game, became restless. Mindful of the international politics involved in the loan negotiations and desirous of maintaining their own positions in the Far East, Japan and Russia, though by no means money-lenders at the time, sought to gain admission to the group. Their request was granted, and in June, 1912, Japan and Russia were admitted to the consortium.[1] The inclusion of Japan and Russia greatly strengthened the position of the group and, as we shall see a little later in our discussion of the Crisp loan, it was then made extremely difficult for China to resort to other sources.

As a preliminary step to reopening the negotiations, the group demanded the immediate cancellation of the Belgian loan. To this China acceded; and on May 2 the Belgian loan was canceled. On May 3 negotiations were resumed. In a meeting between Premier Tang Shao-yi and the representatives of the group, the latter insisted on a strict supervision of China's finances. This Mr. Tang refused. The negotiations were subsequently taken up by Mr. Hsiung Hsi-ling, then Minister of Finance. On May 11, the representatives of the group dropped the original proposal to have foreign military officers supervise the payment and the disbandment of the troops, and agreed to delegate this responsibility to the commissioners of customs.[2] From May 17 to May 24 a conference was held in London among the bankers of the Sextuple Group. As a result of this conference, the representatives of the group submitted to Mr. Hsiung Hsi-ling the following proposals:[3]

[1] *Far Eastern Review*, vol. viii, p. 381.

[2] *China Year Book*, 1913, p. 355.

[3] *Ibid.*, pp. 358-359.

1. The said group was to have the right to manage the loan fund for five years.
2. The Salt Gabelle was to be administered under foreign supervision.
3. A representative of the group was to be president of the Auditing Bureau.
4. A representative of the group was to be appointed financial adviser to the Chinese Government.

Mr. Hsiung declined to consent to these new proposals. On July 9 he addressed a letter to the group setting forth the reasons for his dissent and declaring that the government would have to seek other means of meeting its urgent needs. A few days later Mr. Hsiung resigned from his post as Finance Minister and was succeeded by Mr. Chow Hsueh-hsi.

Mr. Hsiung's declaration that the government would have to seek other means of meeting its urgent needs paved the way for the obtaining of loans from other sources. In fact, during all this time, independent financial syndicates had been seeking to negotiate loans with China. Subsequently, a preliminary agreement with an independent British syndicate was concluded on July 12 and the final contract was signed on August 30.[1] According to the loan agreement, the loan was fixed at ten million pounds bearing five per cent interest. It was to run for forty years and was secured by the salt revenue. If conditions were unfavorable for the issue of the loan, the syndicate was to be allowed a six months' extension, after which date the period might be further extended or the loan be canceled. In addition, the agreement stipulated that no new loan was to be floated until the whole of this loan had been issued to the public, and that preference was to be given to the same syndicate for other loans if the terms offered were as favor-

[1] *China Year Book*, 1913, pp. 359-364.

able as those otherwise obtainable. This loan is known as the Crisp loan—so called because Mr. C. Birch Crisp was at the head of the independent British syndicate.

The conclusion of the Crisp loan greatly alarmed the British government, as above all the other governments concerned she had been the most energetically exerting herself in behalf of the exclusive interests of the group. The two interviews granted to Mr. Crisp by the British Foreign Office, appearing in the British Blue Book of 1912, are illuminating, as they clearly indicate the line of policy pursued by the British government at that time.[1] We shall quote these interviews in full:

During his first visit to the British Foreign Office, on August 23,

Mr. C. Birch Crisp informed the Foreign Office that he was negotiating a loan with Lew Yuk-lin, China's Minister to the Court of St. James, of £10,000,000. His syndicate was composed of Lloyd's Bank, the London County and Westminister Bank and the Capital and Counties Bank.

The British government, Mr. Crisp was told, (1) did not consider that China was free to borrow outside of the consortium until the repayment of the advances made by the latter had been duly provided for; (2) would never support a loan concluded without adequate guarantees for the control of the expenditures of the proceeds and without proper security; (3) and that the fact that the six-Power consortium, with the support of their respective governments, had so far been unable to obtain satisfactory terms in these respects from the Chinese government rendered it very improbable that a syndicate without the same experience and unsupported by any foreign government could meet with a greater success.

Mr. Crisp's second interview with the British Foreign Office reads as follows:

[1] *China*, no. 2 (1912), no. 22 and no. 30.

Mr. C. Birch Crisp called at the Foreign Office on September 10 in connection with proposed loan of £10,000,000 to the Chinese government. Mr. Crisp was met by Mr. Gregory, of the Far Eastern Department, and confirmed the statement that the loan in question had been definitely concluded.

Mr. Gregory pointed out that Mr. Crisp had acted in defiance of the declared policy of His Majesty's government, which had been made perfectly clear to him on his previous visit to the Foreign Office. Mr. Crisp admitted that this was so, but said that he knew that the public was prepared to take up the loan, and that he did not see how His Majesty's government could prevent the transactions being carried through.

Mr. Gregory replied that His Majesty's government were not of course in a position to put pressure on the syndicate interested in the loan, but they could put considerable pressure on the Chinese government, and would not hesitate to do so at once.

Mr. Gregory inquired whether Mr. Crisp would prefer to see the whole influence of the six governments thrown against the loan, or would himself be prepared to cancel the agreement and prevent an open conflict. After consideration, Mr. Crisp admitted that it would be foolish to proceed with the loan in the face of the active hostility of the six governments, and he therefore proposed the following procedure, which Mr. Gregory promised to submit to me (Grey): He would postpone the issue of the loan and would undertake not to proceed further with it without previous notification to the Foreign Office; he would issue no prospectus; he would cause no reference to be made to the agreement in the press, and would refuse any information as to its existence if applied to.

Under the direction of the British Foreign Office, Sir John Jordan, the British Minister at Peking, lodged a strong protest against the conclusion of the Crisp loan and at the same time presented to the Chinese government a memorandum setting forth the various British claims on China

and demanding their immediate payment.[1] China was thus compelled, for the second time, to apply to the group for the reopening of the negotiations. Negotiations were consequently resumed in the first week of November after the first five million pounds of the Crisp loan had been floated. The group insisted on the immediate cancellation of Article XIV of the Crisp loan agreement, which stipulated that the Chinese government should not issue or authorize the issue of any other external loan until the whole of the Crisp loan had been issued to the public and that the Crisp syndicate should have preference for further loans if their terms were as favorable as those offered by others. The Chinese government conceded this demand and the provision in question was canceled in return for a payment of one hundred and fifty thousand pounds as compensation. On December 16, another conference of the Group bankers was held in London to consider the provisions for the final agreement.[2] In this conference the terms agreed to by China were approved. The final agreement was then ready for signature, only the usurious action of the group preventing its early consummation.[3] Taking advantage of the Balkan situation the group sought to raise the interest rate from 5 to 5½ per cent; but China refused to accede to this demand, as to agree to it would have added greatly to the burden of the country. Finally the group was persuaded to drop the proposal of increasing the interest rate to 5½ per cent and the agreement was again ready for signature at the end of January, 1913, when France and Russia raised objections to the appointment of the foreign advisers made by China.[4]

[1] *China*, no. 2 (1912), nos. 35-39 inclusive; Chia Sze-yi, *op. cit.*, vol. iv, pp. 37-38.

[2] *China Year Book*, 1914, p. 379.

[3] *Ibid.*, p. 380.

[4] *Ibid.*, pp. 380-382; *Far Eastern Review*, vol. ix, pp. 394-5.

According to the terms agreed to by China and the representatives of the group, China was to appoint a foreigner as adviser to each of the three following administrations: the Salt Gabelle, the Loan Department, and the Auditing Department. Consequently, China appointed Mr. Oiessen, a Dane, for the Salt Gabelle; Signor Rossi, an Italian, for the Auditing Department; and Herr Rump, a German, for the Loan Department. To these appointments both the French and the Russian legations raised strong objections. In his *Forces Mining and Undermining China*, Mr. Rowland R. Gibson made the following observation:

> What possible objections could any reasonable government have to Mr. Oiessen's supervision of the Salt Gabelle? Overtures were actually made to him, but the French Minister raised objections to his appointment because he was a Dane and Denmark was not a participant in the loan. Yet Mr. Oiessen is one of the greatest ornaments of the Chinese Custom Service and a custom commissioner of many years' standing. No, about the whole question there was a greatly undignified wrangle to put this man or that man into a highly salaried position because this or that nation had contributed so much money. There was more than a suggestion of each nation's desire to profit by the transaction.[1]

In order to settle the question amicably among themselves, the ministers of Great Britain, Germany, France, the United States, Japan and Russia met in the evening of February 4.[2] At the meeting the French minister demanded the appointment of a French adviser, on the ground that the major portion of the money would come from France, and the Russian minister asked that a Russian

[1] Gibson, R. R., *Forces Mining and Undermining China* (New York, 1914), p. 124.

[2] *China Year Book*, 1914, p. 382.

adviser be engaged because of Russia's predominant share in the Boxer indemnity and consequently in the lien on the Salt Gabelle. It was also suggested that Germany should have the control of the British section of the Tientsin-Pukow railway if a Britisher were to be nominated to the advisership on the Salt Gabelle. Commenting on this, Mr. Gibson says: "Can we imagine anything more degrading to a nation's pride than to hear such things? Can we also imagine anything more degrading to a nation's sense of decency than to propose such things?" [1] Finally the ministers decided to have a British inspector in the Salt Gabelle, a German director in the National Loan Department, and two advisers of Russian and French nationality, respectively, for the auditing bureau. China objected to these proposals and sought to raise other loans, but in vain.

China's real grievances against the negotiating powers were clearly set forth in a letter addressed to Mr. E. G. Hillier, senior representative of the Sextuple Group, by Mr. Chow Hsueh-hsi on March 11, 1913. As this letter is no less illuminating than the two interviews granted to Mr. Crisp by the British Foreign Office, we shall reproduce it in full.

I have the honor to submit the following communication for your consideration:

For nearly one year past negotiations have been carrying on with you with a view to the obtaining of a comprehensive loan for meeting the financial requirements of our country. The terms of the proposed agreement were discussed by the Cabinet, and their essential conditions, so far as they have been arranged, were submitted by me to the National Council, and, with the exception of two points—namely, the rate of interest and the price, which I modified on my own responsibility—were approved by the National Council.

[1] Gibson, *op. cit.*, p. 158.

From the first it was my wish to contribute in every way to the maintenance of harmonious relations with the Sextuple Banks, and keeping this object in view I have yielded to the terms required by you to the utmost limit, in the hope that success might be obtained, complete order in the country restored, essential reorganization effected, and permanent peace assured.

Twice during these negotiations I have been placed in specially serious embarrassment. On the occasion of the end of the old year, modern style, and again at the end of the old year, old style. On both these occasions obligations had to be met. On the former of these occasions, feeling confident that my action on this emergency would be approved by the National Council, I asked the Cabinet to accept the responsibility of agreeing to the rate of interest of 5½ per cent instead of 5 per cent which had been the original basis of our negotiations.

On the 26th of January you wrote to me that "with the exception (namely, the price of the issue of the loan in London and a verbal alteration of Article 13) the text of the loan agreement to be signed is the same as that handed to you under letter of the 15th of January." And you added that the signature of the loan agreement was subject to the fulfillment of the following conditions:

"Notification to us by our respective ministers of the engagement under suitable contracts of acceptable foreigners for the posts of—

Chief inspector of the Salt Administration.

Adviser to the Accounts and Audit Department.

Director of the National Loan Department."

On receipt of this letter I took the necessary step to engage three foreigners of high integrity and tried experience to fill the three posts specified. These foreigners I selected by merit, not by nationality, after having made thorough inquiry into their merits. I had every reason to believe that the choice would meet with your approval, but on the 4th of February, when the agreement was ready, and when you had already promised to sign it immediately and advance money at once, unexpected obstacles were created and your promises could not be fulfilled.

On the 5th of February I wrote to you informing you that as the agreement had not been signed I reserved the right to contract other loans elsewhere. You at once replied that "so far as the Group's representatives are concerned, everything is now ready for signature, and the delay of which you complained is therefore clearly due to circumstances beyond our control and for which we can not be held responsible."

On the 6th I again addressed a letter to you stating that I could not be held responsible for matters outside the scope of the loan agreement, and that since no agreement seemed possible it was my duty to seek elsewhere for the advances we stood in need of. Yet still I waited patiently, hoping that you might still conceive it reasonable that you should sign the contract which was "ready for signature."

More than a month had passed since the date of signature originally proposed, when on March 3rd the intimation was conveyed to my government that at a meeting of the six-Powers' ministers it had been arranged that nationality was to be the determining factor in the engagement of the foreigners provided for in the loan contract, and that an Englishman was to be appointed in the Salt Gabelle, with a German deputy, that the director of the National Loan Department was also to be a German, but that in the Account and Audit Department there was to be one highly important change. Instead of one foreigner there were to be two—a French man and a Russian. Such serious alterations were never contemplated or suggested in all the course of the negotiations.

First by a succession of unreasonable delays, and secondly, by the altered conditions required for the fulfillment of the loan contract, I have been involved in difficulties which I have never contemplated as possible. China has been assailed in the European papers. We are charged with failing to fulfill our financial obligations by the very Powers whose action has prevented us from fulfilling our obligations. We are upbraided for not more rapidly reorganizing our administration by the very Powers whose action has prevented us from obtaining the requisite means for reorganization.

The administration of my country has suffered serious injury through this delay, and future postponement has become most difficult.

I cordially thank you for the constant courtesy you have shown me throughout these protracted negotiations, and I deeply regret that unforeseen circumstances have prevented the signature and realization of the contract when "ready for signature," circumstances which, as you stated in yours of the 15th February, are beyond your control, and for which you cannot be held responsible.

I respectfully send you this communication for your consideration.[1]

During all this time, when the other Powers were seeking to drive an entering wedge into the financial control of China, President Woodrow Wilson of the United States was evidently adopting a policy of "watchful waiting". At last the time came when the great European diplomats at Peking haggled over the nationality of the foreign adviserships in China. In order to make clear the attitude of the United States, President Wilson made the following announcement on March 18, 1913:

The last Administration, desiring to manifest America's good-will towards China, to open the way for investment of American capital in China, and, also, to share equally with other Powers political responsibility which might accompany the development of China's external relations, requested the American Group to participate in the Reorganization Loan.

Now the latter has approached the present Administration, saying that if a similar request were made, then, and then only, would the Group continue active participation. The conditions of the Loan, however, include conditions embodying the imposition of antiquated taxes and supervision by foreign advisers. The present Administration regards this as touch-

[1] Gibson, *op. cit.*, pp. 125-130.

ing the independence of China, and does not see the necessity for participation, even though America took no initiation therein.

Moreover, the responsibility attaching to such a request, in case of eventualities, might lead to the necessity for forcible interference, not only in the financial, but also in the political affairs of China. Such is contrary to American national principles.

This Administration, therefore, refused to request the Group to participate in the Loan. The United States government, however, had no intention of preventing free development of the great Chinese nation. On the contrary, it intends to give whatever assistance is possible, so far as is consistent with American traditional policy.

The awakening of the Chinese people in respect of liberal administration is the most significant event of modern times; and activities of the Chinese people in that direction have the sincere sympathy of the American people, who desire to participate in China's enormous, almost unrivalled resources for the good of the Chinese people and of the world at large. America is anxious to promote commercial relations between the two Republics, and recognises that necessary legislation is lacking to give American residents in China banking facilities, thereby placing Americans in a remarkably unfavorable position as compared with their competitors. We are ready to support legislation for laws to amend that defect.

In short, our interests in China lie in the open door, with the object of cultivating friendship and mutual benefit.[1]

[1] *New York Times*, March 19, 1913. However, this policy of non-participation in the international financing of China was somewhat reversed by the following announcement made by the State Department on July 29, 1918, which reads as follows: "China declared war against Germany very largely because of the action of the United States. Therefore this government has felt a special interest in the desire of China so to equip herself as to be of more specific asssistance in the war against the Central Powers.

"Until the present time the engagements of the United States in

The appearance of President Wilson's announcement was

preparing to exert effectively its strength in the European theatre of war have operated to prevent specific constructive steps to help China realize her desires. Recently, however, this government felt that because of the approach to the Chinese territory of the scene of disorder, a special effort should be made to place proper means at the disposal of China. Consequently, a number of American bankers, who had been interested in the past in making loans to China and who had had experience in the Orient, were called to Washington and asked to become interested in the matter.

"The bankers responded very promptly and an agreement has been reached between them and the Department of State which has the following salient features:—

"First, the formation of a group of American bankers to make a loan, or loans, and to consist of representatives from different parts of the country.

"Second, an assurance on the part of the bankers that they will co-operate with the government and follow the policies outlined by the Department of State.

"Third, the submission of the names of the banks who will compose the group for approval by the Department of State.

"Fourth, the submission of the terms and conditions of any loan or loans for approval by the Department of State.

"Fifth, an assurance that if the terms and conditions of the loan are accepted by this government and the government to which the loan is made, in order to encourage and facilitate the free intercourse between American citizens and foreign states which is mutually advantageous, the government will be willing to aid in every way possible, and to make prompt and vigorous representations, and to take every possible step to insure the execution of equitable contracts made in good faith by its citizens in foreign lands.

"It is hoped that the American group will be associated with the bankers of Great Britain, Japan and France. Negotiations are now in progress between the government of the United States and those governments which it is hoped will result in their co-operation and in the participation by the bankers of those countries in equal parts in any loan which may be made.

"Besides the warlike conditions which confront China on her northern and western borders, there is a further incentive to co-operate with all these governments because the war has created a community of interest between them and their citizens and those of other governments

indeed timely, as it served to draw the world's attention to the dangerous situation then developing in the Far East, growing out of the effort of Great Britain, Germany, France and Russia to dictate to China the appointment of her foreign advisers. The moral value of the announcement was undoubtedly enormous. Whatever advantage the United States might have lost for the time being through her voluntary withdrawal from the consortium was more than compensated by China's growing confidence in this country.

Although China was at that time unable to obtain a large loan from other sources, she succeeded in negotiating two Austrian loans, amounting to £3,200,000 in all.[1] Ostensibly these loans were for the purpose of building a number of torpedo-boats in Austrian dockyards, but a substantial part of the sum went to replenish the empty treasury. However, from the conclusion of these two loans China received only a temporary relief. She was in no position to postpone the conclusion of the Reorganization Loan. Compelled by bare necessity from within and by the pressure of foreign governments from without, China had to agree to the appointment of persons nominated by Great Britain, Germany, France and Russia. Thus were brought to a conclusion the unduly protracted and truly tortuous negotiations which covered a period of fifteen months and in which one premier and two finance ministers participated. The final agreement was signed on April 26, 1913.[2]

and has broken down barriers which once have existed and has made easier the intercourse between them.

"It is hoped that if the project succeeds it will serve as an agency through which this community of interest and the subsequent expansion of our mutual interests abroad may be adequately and properly expressed." *New York Times*, July 30, 1918.

[1] *Cf. supra*, pp. 46-47.

[2] Chia Sze-yi, *The Financial History of the Republic*, vol. iv, pp. 35-45; *China Year Book*, 1916, pp. 358-375.

The loan agreement itself contained twenty-one articles and six annexes; but the substance of it may be summarized as follows. The amount of the loan was twenty-five million pounds bearing five per cent interest. One-half of this sum was to be used for the payment of old debts and the other half for the disbandment of troops, for the reorganization of the Salt Gabelle, and for other administrative purposes. The issue price was not to be lower than 90. In addition, the bankers were allowed a commission of six per cent. Therefore, the net proceeds actually turned over to China were only 84 per cent. The term of the loan was forty-seven years, payment of principal beginning with the eleventh year. If China was to redeem the loan after the seventeenth year, she must pay a premium of two and a half per cent. The securities for this loan were: (1) the salt revenue, (2) the customs revenue, and (3) certain internal revenues in Chih-li, Shantung, Honan and Kiangsu. In addition to these loan provisions, there were attached to the agreement a number of special requirements. China was to employ acceptable foreigners to reorganize her Salt Gabelle, to establish the Auditing Bureau and to direct the National Loan Department. The bankers were to be given preference for other loans secured on the salt revenue or devoted to the same purposes, always allowing them a six per cent commission. A commission of one-fourth of one per cent on the annual loan service was to be given to the bankers "in reimbursement of expenses connected with the payment of interest and with the repayment of principal of the loan." The rate of interest on the balance of loan funds held by the bankers was three per cent, while the interest on the advances already made to China was chargeable at the extortionate rate of seven per cent.

CHAPTER VI

Provincial Loans: Domestic and Foreign

Like the loans contracted by the central government, provincial loans are of recent origin.[1] It was not until after the Russo-Japanese war in 1904-1905 that the provinces began to contract loans for administrative and other purposes. The beginning was made when Chih-li, under the viceroyalty of the late Yuan Shih-kai, floated a domestic loan of 4,800,000 taels for reforming the provincial army. The loan was issued in $10 and $100 bonds, bearing interest at 7 per cent, this rate to be increased annually by one per cent until the maximum rate of 12 per cent was reached. The term of this loan was six years, the whole sum to be repaid in six equal annual installments. As securities for the loan, the province pledged the receipts of the provincial treasury and the receipts of the salt commissioner's office, amounting to 300,000 taels and 350,000 taels respectively; the surplus salt revenue from seven specified districts amounting to 150,000 taels, and the surplus receipt of the provincial mint amounting to 400,000 taels. In addition to these ordinary loan terms, a special provision was made to the effect that the bonds might be accepted for the payment of all provincial taxes when the payment of the principal should fall due.

[1] For details, see Chia Sze-yi, *op. cit.*, vol. iv, pp. 104-112; *The Writings of Liang Chi-chiao*, vol. x, pp. 138-234, 254-276; and *The Eastern Miscellany* (a Chinese Monthly published in Shanghai), vols. of 1909, 1910, 1911, 1912 and 1913.

The Chih-li loan of 1905 served as an example for other provincial domestic loans. The Hupeh domestic loan of 1909, the Ankwei domestic loan of 1910, and the Hunan domestic loan of 1910 were floated after the model of the Chih-li loan. Their rate of interest, their term and their special conditions are exactly the same as those laid down in the Chih-li loan. But as regards their purposes, their amount and their securities, they are quite different from each other. The Hupeh loan, amounting to 2,400,000 taels, was for the purpose of paying off certain old debts. It was secured on: (1) the receipts of the provincial treasury and of the salt commissioner's office, amounting to 60,000 taels and 100,000 taels respectively; (2) the customs revenue of Hankow, amounting to 60,000 taels; (3) the surplus receipts of the provincial mint, amounting to 20,000 taels; and (4) the surplus receipts of the lottery office, amounting to 30,000 taels. The Ankwei loan of 1,200,000 taels was for the purpose of replenishing the provincial treasury. As securities for this loan, the province pledged the miscellaneous receipts of the provincial treasury amounting to 140,000 taels and certain likin revenues amounting to 150,000 taels. The Hunan loan of 1,200,000 taels was also for the purpose of replenishing the provincial treasury. It was secured by the surplus receipts of the provincial mining office and of the Sui-Kow-Shan mine, amounting to a total of 265,000 taels.

This brief survey of the provincial domestic loans concluded up to 1912 leads to a few general criticisms. In the first place, some of these loans were concluded for administrative purposes, while others were for the payment of old debts. These practices, quite contrary to sound fiscal principles, should not be permitted except under special and extraordinary circumstances. It is unimaginable that a government can rely on public borrowing for administrative purposes without drifting to the verge of bankruptcy, and

hence of disruption. Secondly, the interest rate of these loans was progressive, beginning with 7 per cent and increasing gradually to 12 per cent. The objection to this practice is that it puts a growing burden on the taxpayer in order to benefit a few money-lenders. In the third place, the payment of the principal began almost immediately after the loan or loans had been contracted. This arrangement is indefensible, as it does not leave the government enough time to readjust its financial affairs in the interval between the conclusion of the loan and the commencement of its amortization.

Since the establishment of the Republic in 1912, several domestic loans have been floated by the provinces. The first of these is the Kiangsu domestic loan of 1912. This loan of one million dollars was for the purpose of replenishing the provincial treasury. It was issued in $5 bonds and bore interest of 7 per cent. As security for the loan, the province pledged the receipts from provincial taxation. The term of this loan was five years. After the expiration of the loan, the bonds might be accepted for the payment of all provincial taxes. The actual subscription to this loan amounted to only $208,510. At about the same time two domestic loans of one million dollars each were issued. They are the Che-Kiang domestic loan of 1912 and the Fukien domestic loan of 1912. The purpose of these loans was to replenish the provincial treasury. Their conditions were similar to those of the Kiangsu loan and their results were just as unsatisfactory. Only a fraction of each of these loans was actually subscribed.

In the foregoing paragraphs we have discussed the domestic loans of the provinces. We shall now proceed to discuss the provincial foreign loans. Broadly speaking, the provinces are prohibited from contracting foreign loans.[1]

[1] The following communication from the Wai-Chiao-Fu (the Foreign

But in the past there have been quite a few instances in

Office) to the foreign ministers at Peking dated July 25, 1912 is instructive:—

"In former times if provincial officers had recourse to foreign loans to meet urgent public requirements, they were invariably obliged to report the matter beforehand to the Throne, and, the consent of the Central Government having been given, by way of recording and authenticating the transaction, an official communication on the subject was addressed to the Minister in Peking of the country concerned. The foreign merchant making the loan was also required to report the matter in the first instance to his Minister in Peking and to ascertain through the latter from the Central Government that a memorial on the subject had been submitted to the Throne, before he undertook to make the loan. If there were no record of the Imperial sanction having thus been obtained, and the foreigner lent the money simply on his own authority, the State, irrespective of any contract which might have been made, did not recognize the transaction at all, and, in the event of complication ensuing, took no step on behalf of the lender for the recovery of the money.

"The above conditions were notified by the then Tsung-li Yamen (the old Foreign Office) in an official communication dated the 4th December, 1891, to the foreign Ministers at Peking, who were desired to convey the information to the merchants of their respective countries; there have been constant instances of the adoption of the procedure therein laid down.

"Several cases have recently come to the knowledge of the Waichiao Pu in which railways in the provinces under commercial management have had recourse to foreign loans without reporting to, or requesting the consent of, the Central Government, and have, on their own authority, concluded the terms of the loans with foreign merchants or other persons direct.

"In order, therefore, to guard against possible abuses, it is necessary to reaffirm the existing stipulation and to state definitely that in the future no foreign loan contracted by any railway in the provinces, even though under commercial management, can be valid unless it has been submitted to and allowed by the Central Government, and also that foreign merchants, before concluding the terms of any loan, must report to the Minister of their nationality at Peking and request him to ascertain definitely whether the Central Government has given its sanction to the transaction, before undertaking to make the loan, with a view to receiving satisfactory safeguards.

"I have the honor to communicate the above information to your

which foreign loans were contracted by the provinces with or without the knowledge and consent of the Central Government. The first foreign loan concluded by the provinces was that of Hupeh in 1909. This loan was obtained from the Hongkong and Shanghai Banking Corporation for the purpose of replenishing the provincial treasury. The amount was 500,000 taels, with interest at 7 per cent. It was secured by the Yee-chang likin tax on salt, and was to run for ten years. Two years afterwards the Hupeh province contracted another loan with four foreign banking institutions in order to pay off certain old debts. The amount of the loan was two million taels, with interest at 7 per cent per annum. The term and the security of this loan were similar to those of the previous one. In 1912 a third Hupeh loan was concluded with a German firm for the purpose of replenishing the provincial treasury. The amount of this loan was three million taels, bearing six per cent interest. It was to run for two years and was secured on the Hankow taxes. In addition, the firm was to be given certain mining privileges in the Hupeh provinces.

Early in 1910 a few of the important native concerns at Shanghai went into bankruptcy, leading to a financial panic. In order to relieve the situation, the Shanghai intendant contracted a loan of three million and five hundred taels with eight foreign banking houses at Shanghai. This loan was to run for six years and bore interest at 4 per cent. The Shanghai intendant was to guarantee the payment of the principal and interest of the loan. At the same time and for the same purpose, two other foreign loans were contracted. One of these was concluded between the Kiangsu

Excellency for notification to the British mercantile community throughout the country."—*China*, no. 3 (1913) enclosure in no. 58.

For similar announcement concerning loans to be secured on mining properties in China, see *China*, no. 3 (1913), enclosure in no. 65.

viceroy and three foreign banking houses at Shanghai. This loan of three million taels was secured by the Kiangsu salt revenue and was to run for six years. It carried interest at 7 per cent. The other loan was concluded between the Shanghai Chamber of Commerce on the one hand and the Shanghai branch of the Hongkong and Shanghai Banking Corporation on the other. The amount of the loan was two million dollars at 7 per cent interest and was secured by the private properties of the Shanghai merchants.

About a year after the financial panic had occurred in Shanghai a similar situation developed in Canton, when a few of the influential Shansi banks became bankrupt. In order to relieve the money market in Canton, the Viceroy of the Two-Kwang provinces borrowed six hundred thousand yen from the Japanese merchants at 6 per cent interest. The whole sum was to be repaid within a year. Some time afterwards, another loan of one million yen was contracted for the same purpose and from the same source. This loan was to run for three years at 6 per cent interest. It was secured by certain government monopolies at Canton.

In 1911 the Yunnan government, under the viceroyalty of Mr. Li Ching-hsi, contracted a loan of 1,800,000 taels with an Anglo-German mining concern in Yunnan. This loan was for the purpose of undertaking certain administrative and military reforms in the province and bore interest at 5 per cent. It was for a term of twenty-five years, the principal to be repaid in twenty equal annual installments. In 1912 the Chih-li government contracted a loan of eight hundred thousand pounds with a German firm in order to make up the provincial contribution to the Central government. This loan bore interest at 7 per cent and was for a term of ten years, payment of principal to be made in ten equal annual installments. The provincial taxes on wine, tobacco and tea were named as securities for this

loan. In the same year the Chekiang government borrowed five million marks from a German munition firm at 6 per cent interest. Ostensibly this loan was for the purpose of buying munitions, it being stipulated in the loan contract that at least two million marks were to be spent in buying munitions from the contracting firm. This loan was secured by the Che-kiang likin tax and the special silk tax, and was for a term of five years, the whole sum to be repaid in five equal annual installments.

From a description of the terms of the various foreign loans we may now pass over to a few general criticisms. Perhaps the chief criticism that may be urged against all of the provincial foreign loans is that they should not have been contracted at all. The reasons for this position are obvious. Foreign loans in China, whether they be national or provincial, are more or less political in character. Heretofore, the foreign capitalists, in their investments in China, have been actuated more by the desire to further the political interests of their respective countries than by the hope of making pure business profits. In fact, it has been the settled policy of certain countries to encourage their own citizens to invest money in what they consider to be their sphere of interest. In order properly to combat such an attempt on the part of foreign countries, it is essential that the national government alone be empowered to contract foreign loans. Moreover, inasmuch as foreign loans are political in their character, they are apt to lead to diplomatic representations and discussions; and as such, they should always be dealt with by the Central Government. The power to contract foreign loans should be just as much centralized as the power over diplomatic and foreign affairs. Finally, there is still another reason why the provincial foreign loans should not have been contracted at all. As yet no distinction has been made between local and national taxes. Every tax in

the province constitutes a source of revenue for the national government. It is, therefore, unjust that a source of national revenue should be mortgaged for a loan which is to be used exclusively for the benefit of a particular province.

Aside from this main consideration, which is at once fiscal and political, there are a number of minor criticisms which may be urged against the conclusion of foreign loans by the provinces. In the first place, provincial borrowing introduces a great complication into the administration of foreign loans, as the loan contracts may be entirely different in different localities. It would, consequently, be exceedingly difficult, if not impossible, to issue a large loan for purposes of conversion and consolidation. Secondly, provincial borrowing would defeat the policy suggested in the concluding chapter that foreign loans should hereafter be contracted only by a responsible cabinet with the approval of the national parliament. In the case of provincial loans it would be almost impossible for the parliamentary committee to scrutinize the details of every loan contract. In the third place, the terms of the loans issued by the provinces are not satisfactory. Most of these loans are contracted for administrative purposes, while a few of them include the obnoxious provision granting certain special privileges to the financial syndicates. Both of these characteristics are injurious to the fiscal and territorial integrity of the country.

CHAPTER VII

Conclusions and Suggestions

A critical study of all her loan negotiations and agreements will convince any impartial observer that China has been suffering considerably at the hands of the foreign money-lenders. Some of these sufferings have been more or less forced upon her through the evil agency of dollar diplomacy; while others have been caused through her lack of far-sightedness and prudence. Criticisms of China's foreign loans may be grouped under two main heads: those urged against her loan policies and those urged against her loan terms.

The loan policies of China may be criticized on no less than five different grounds. In the first place, foreign loans are generally complicated with international politics.[1] The conclusion of each of these loans is effected through, or at least taken cognizance of by, the diplomatic representatives of foreign governments at Peking. This fact carries with it the implication that China is under obligations not only to the money-lenders, but also to their governments as well. There is no question that this is a great evil, especially when some of our neighbors have consistently pursued a policy known as "peaceful penetration". A second criticism of China's loan policies is that she has been borrowing not for the purpose of conversion or of consolidation, but for the

[1] The Reorganization Loan of 1913 is a striking example illustrating the political character of China's foreign loans.

payment of old debts.[1] This is undoubtedly an erroneous policy, it inevitably leads to perpetual indebtedness, which in the case of foreign loans in China would mean permanent restriction of her absolute control over some of her own sources of revenue. As a matter of policy, China should always aim at the payment of both principal and interest of her loans through general taxation. Thirdly, China might be criticized for borrowing money through foreign financial agencies. This is an expensive expedient, but its employment is necessary, as China is as yet unable to float a loan in foreign markets on her own credit. A fourth criticism is that some of her loans have been contracted for purely administrative purposes. This is quite contrary to principles of sound finance. To carry on the administration with foreign loans is like "drinking a cup of poison in order to quench the thirst"; for administrative expenses are recurring, and to rely on public borrowing for administrative purposes inevitably leads to bankruptcy, and hence to foreign intervention. Finally, it may be urged that foreign loans have occasionally been contracted by the administrative subdivisions.[2] In theory, the provinces are forbidden to contract loans on their own account. But as a matter of fact this prohibition has in a few instances been disregarded. There is danger that this practice may become more prevalent.

As to the provisions of loan agreements, a number of criticisms may also be urged. In the first place, it may be noted that so far all the government bonds have been issued below par. Under ordinary circumstances this expedient would serve as a means to attract subscribers with the expectation that the government would reap the profit in case

[1] Practically all of the foreign loans concluded between 1895 and 1898 are for these purposes, see *infra*, pp. 19-24.

[2] For the principal objections against provincial borrowing, see ch. vi

the bonds sold were above the fixed percentage. But as all of her foreign loans are first farmed out to the various financial syndicates, China cannot hope to reap the benefit of a rising price. Moreover, as Leroy-Beaulieu has pointed out, discount borrowing may lead to perpetual indebtedness, as it is then more advantageous to maintain the loan than to pay it off. But perpetual indebtedness in China would mean that China would always suffer under the unbearable restrictions imposed upon her by the foreign money-lenders. For these reasons, it is far better to give to the bankers a small commission for the transaction than to issue the bonds much below par.

A second criticism is that the time requirement for the repayment of loans is too long and too rigid. The Reorganization Loan of 1913 is a case in point. In the agreement it is stipulated that the term of the loan is to be forty-seven years, payment of the principal to begin in the eleventh year, and that if China wishes to redeem the loan after the seventeenth year, but before the thirty-second year, she must pay a premium of 2½ per cent. This means that China, by paying a two-and-a-half per cent premium, may redeem the loan after the seventeenth year of a thirty-two year period. This is a very disadvantageous condition to China, as she can neither utilize her surplus revenue for the payment of her debt nor convert her old loans at a lower rate of interest.

In the third place, provisions have often been inserted to give the foreign syndicate the first option on other loans This is an obnoxious provision, as it restricts China's freedom of action and retards the development of China's natural resources. A fourth criticism is that China is too apt, either willingly or unwillingly, to grant special rights and valuable concessions to foreign financial syndicates. This is, perhaps, more evident in the case of railway loans than

of other loans. Practically in every railway loan agreement, provision is made for the appointment of the chief engineer and of the chief accountant by the syndicate.[1] Equally prevalent is the provision that the syndicate shall act as the sole purchasing agent for foreign railway materials.[2] All these provisions involve a great loss to China both politically and financially; and as such they should be eliminated in future loan agreements.

In the foregoing paragraphs we have criticized China's loan policies and loan terms. We must now pass over from criticism to constructive suggestions, as our intention is not to destroy but to reconstruct. The first problem that presents itself is that of conversion and consolidation of all loans. The experience of other countries has clearly demonstrated the advantages resulting from conversion and consolidation. Through conversion, the rate of interest may be reduced and the government may thereby improve its own credit at home and abroad. Through consolidation, the administration of all loans may be considerably simplified. Realizing these advantages, the Republican government since 1911 has sought to convert and to consolidate all the existing loans; but owing to the difficulty of raising a large loan for these purposes either at home or abroad, all the attempts have ended in failure.

The next problem, and perhaps a far more important one, that claims our attention is the payment of the debt. A careful consideration of this problem involves a discussion of two points: first, the reasons why China should pay off her foreign loans as soon as possible; and second, the methods of repayment. Taking up, then, the first point, it may be said that there are three main arguments for the

[1] See *Railway Loan Agreements* published by the Ministry of Communications in 1916.

[2] *Ibid.*

rapid payment of China's foreign loans. In the first place, foreign loans restrict the sovereign rights of China. In order to guarantee the due payment of some of her foreign loans, China has pledged herself to engage acceptable foreigners to administer her Customs Service, to supervise her Salt Gabelle, to advise her Auditing Bureau and Loan Department, and to direct some of her railway affairs. As long as those loans remain unpaid, it is very problematical, if not impossible, that the foreign countries concerned will forego the unusual privileges granted to money-lenders. And as long as foreigners are in control of her Custom Service, of her Salt Gabelle, of her Auditing Bureau and Loan Department, and of part of her railway administration, China's sovereignty cannot be said to be unimpaired, while her administrative rights must necessarily be greatly curtailed.

In the second place, the maintenance of China's foreign loans is very expensive, and this for three reasons. First, the rate of interest is generally high. For most of her foreign loans China had to pay an interest of at least five per cent; in a few instances the rate of interest runs as high as seven per cent—this in addition to the discount usually allowed to money-lenders. Second, practically all of China's foreign loans are gold debts. Due to the manipulation of foreign banking institutions in China, the price of gold invariably rises when the payment of the foreign debt or indemnity falls due. This of course means a great financial loss to China, as silver is still her standard currency. Third, the employment of many foreigners in her various services is extremely expensive. As a rule, these foreigners receive much higher salaries than the native employees and their employment necessarily closes the door to many natives who would otherwise seek for the same employment. In the third place, the early payment of her debt would establish

confidence in the Chinese government and would thereby enable China to obtain more favorable terms for future loans.

Thus far we have been discussing the reasons in favor of the rapid payment of China's foreign loans. The next question is, How is China to pay them? Or, to be more exact, what is the best possible method of repayment? It is, perhaps, best to begin the discussion with a brief historical survey of the various attempts made by China toward the repayment of her foreign loans.[1] The first attempt was made soon after the conclusion of the Russo-Japanese war, when a movement was started for raising a large patriotic subscription in order to counteract the suggestion that foreign creditors might take over the financial administration of the country. However, the movement was ill-organized, and its progress caused a great deal of trouble in the country. Hence, the government peremptorily put an end to such a movement. The failure of this movement did not discourage those who were anxious for the repayment of China's foreign loans in order to stop the aggressive steps of foreign money-lenders. A few years later, another movement was started in the form of an organized society known as "The Society for the Payment of National Debts." This society was organized by the Tientsin Chamber of Commerce and the Chih-li Commercial Association. It had for its object the payment of the indemnity and war loans of 1895 and of 1900. The plan of the society was: (1) to distribute the burden among the various districts, the exact quota of each district to be determined by the provincial assembly according to wealth and population; (2) the rich people were to be requested to pay the proportionate amount for the poor people of their respective districts,

[1] For a more detailed account, see Chia Sze-yi, *The Financial History of the Republic, passim; The Writings of Liang Chi-Chiao*, published by the Commercial Press in Shanghai, 1916, *passim*.

but these payments were not to exceed one per cent of their total wealth; (3) and in the future, these rich people were to be decorated by the Emperor for their patriotic service. This movement was in every respect better organized and better conducted than its predecessor. But it also failed to achieve success because the government was not in sympathy with the movement and because the money market in China was then lacking.

After the establishment of the Republic in 1912, another movement was started, this time in the form of a proposal presented to the government for consideration and for action. A society known as "The Society on Reconstruction under the Republic" was organized soon after the inauguration of the provisional government at Nanking in January, 1912. It was composed of prominent publicists and scholars and was created for the purpose of studying the various problems of reconstruction. In the fall of 1912 the society proposed to raise a loan of six hundred million dollars. Out of this sum ten million dollars were to be appropriated as the first installment of a sinking fund to be administered by a commission of seven or nine members with a foreign financial expert as adviser. Thereafter and within twenty years, the government was to appropriate one hundred million dollars by annual installments in different amounts. According to the plan worked out by the society, the whole debt would be extinguished by the end of forty-two years. This proposal attracted considerable attention at that time; but it was doomed to be a failure, as it was then impossible to raise the large loan proposed either at home or abroad.

Although the proposal of "The Society on Reconstruction under the Republic" was impossible of realization at the time, it at least served to attract the attention alike of the government and of the people to the grave problem of

China's indebtedness. The seriousness of the problem was made more evident after the government had gone through the difficult experience of negotiating for the Reorganization Loan of 1913. Soon after the conclusion of this loan the government took immediate steps for the gradual extinction of China's public debts. A definite plan was adopted by the Ministry of Finance in the latter part of 1913, and it was as follows:

1. The government was to make an annual appropriation of ten million dollars as a sinking fund.
2. The sinking fund was to be administered by a Sinking Fund Bureau within a Chinese Exchange Bank which was to be established at London.
3. There was to be appointed a Financial Commissioner to supervise the administration of the sinking fund.
4. The bonds were to be purchased only when they were below par.

In 1914 Dr. Chen Chien-tao, a graduate of Yale University and several times Minister of Finance, was appointed Special Financial Commissioner with full power to establish the Exchange Bank in London and to organize the Sinking Fund Bureau therein. But owing to the desperate financial conditions of the country arising out of the European war, he was recalled in 1915. Thus the government's plan for the gradual retirement of both foreign and domestic debts was temporarily disrupted.

Such is a brief history of China's attempts to pay off her debts. The problem has been discussed and attacked; but it is yet to be solved. The question remains: what is the best method of paying off China's foreign and domestic debts under the existing conditions? In the last few decades, the sinking-fund idea has been objected to in many countries because of its "inviolable appropriations" which,

it is maintained, may force the government to resort to new loans in order to make the appropriation or to meet unforeseen circumstances.[1] It is also argued that the fund accumulated may be used by the government for other purposes and that, owing to too rigid provisions, the government may not be able to utilize its surplus revenue for redemption purposes. At the present time the sinking funds have been abandoned by most modern states. In our opinion, however, much may still be said for the practice in China, and the plan adopted by the Ministry of Finance in 1913 is on the whole very satisfactory. In most of the loan agreements concluded between China and other countries, provision has been made for the repayment of the principal by annual installments. This means that under the existing political conditions China is not at liberty to choose the time for the payment of her debts. No matter whether she wishes to do so or not, China has had to make "inviolable appropriations" for the gradual retirement of her foreign loans. The only difference is that in the case of establishing a sinking fund proper, the appropriation to be made is perhaps larger. In view of the fact that practically all of the holders of Chinese government bonds are foreigners residing in other countries, there is a still stronger reason why a sinking fund should be established in China. The establishment of a sinking fund would enable the Chinese government to buy back her bonds in foreign markets, principally London and Paris, and would thus mitigate the dangers existing in foreign indebtedness. As to the other arguments that the fund may be misappropriated and that the surplus revenue may not be utilized for redemption purposes, these are not inherent defects of the system and can easily be remedied by legislation.

The treatment of the subject is not complete without ref-

[1] For a more detailed discussion of the subject, see H. C. Adams, *Public Debt*, New York, 1893.

erence to the various problems connected with future loans. Perhaps the first problem that here comes up for discussion is whether it is necessary for China to resort to public borrowing at all. Our answer to this question is decidedly in the affirmative. It is essential not only for the good of her people but also for the good of the world at large that China should immediately develop her natural resources and undertake certain reforms such as currency reform and land-tax reform; and these China cannot hope to accomplish without resort to public borrowing, as she is unable to raise a large revenue through taxation without first reforming and reorganizing the tax system, which will necessarily take some time. The second problem is whether China should raise foreign loans or domestic loans. In our opinion, foreign loans are preferable to domestic loans for two reasons. First, China is not able to raise a large domestic loan because she is now just entering on the industrial stage and because her money market has yet to be fully developed. Second, foreign loans would replenish the home money market and thus stimulate industrial enterprise. However, in order to rouse the interest of the citizens in the government and to absorb whatever idle capital there is in the country, it is advisable to resort to domestic loans in case of emergencies or of temporary financial deficits.

We are thus brought to the third problem, namely, how to borrow. This problem can be resolved into three parts, namely, the prerequisites for public borrowing in China, the loan policies, and the loan terms. But since the loan policies and the loan terms have been more or less fully discussed at the beginning of the chapter when we criticized China's foreign loans, we have only to inquire into the prerequisites for public borrowing in China. Specifically stated, the question is, What are the necessary steps that China must take before borrowing, in order to maintain her own credit and

to guarantee that the proceeds of the loan will be used to the best advantage of the country? In our opinion, there are no less than three prerequisites that China must meet before she can advantageously borrow money from foreign countries. In the first place, there must be a firm control over the finance of the country by the national parliament. This is quite necessary because it will serve as a check to reckless borrowing and against unwarranted expenditures. In the second place, there must be tax reforms. This should at least go hand in hand with public borrowing, as it is absolutely essential to increase the revenue of the state to a point sufficient to carry on the national administration and to meet the annual debt charge. It would be fatal if China should ever again commit herself to the dangerous policy of borrowing for administrative purposes or for the purpose of retiring old debts.

But parliamentary control may be inadequate and tax reforms may not be successful, unless there exists an honest and efficient officialdom. Therefore the third prerequisite is a comprehensive system of civil service based on merit instead of favoritism. China was the first country in the world to institute a civil service. But owing to the abolition of the old examination system under the old régime and to the introduction of the "spoils system" since the Revolution, the civil service in China has been greatly demoralized. In order to guarantee that the administration in financial and other matters be efficient and honest, China must again institute a comprehensive civil service system sufficient to meet the various needs of a modern democracy and with ample pay for her public servants. Perhaps for the time being it may be necessary to supplement the civil service system with a voluntary and non-political employment of foreign technical experts for assistance, as China can reform and reorganize the whole country more expeditiously by relying on expert guidance.

APPENDICES

Appendix A. Domestic Loans

Title and Source.	Principal Amount.	Price of Issue.	Interest per cent.	Security.	Date and Redemption Date.
Patriotic loan.....	$11,804,981	..	6	Treasury bonds	1911–1920
Nanking Military loan.....	6,367,640	..	8	Land tax.....	1912–1920
Third Year, Domestic loan..	24,000,000	..	6	Railway revenue and Peming Octroi...	1914–1923
Fourth year, Domestic loan..	24,000,000	90	6	Native customs and Shansi likin.....	1915–1923

APPENDIX B. INDEMNITY AND WAR LOANS

Title and Source.	Principal Amount.	Price of Issue.	Interest per cent.	Security.	Date and Redemption Date.
Hongkong and Shanghai Bank loan (British).	Tls 10,000,000	98	7	Customs revenue..	Redeemed.
Hongkong and Shanghai Bank loan (British).	£3,000,000	98	6	Customs revenue..	Redeemed.
The French-Russian loan	400,000,000 francs	94⅛	4	Customs revenue and Russian Govt. guarantee.	1895–1931
The Cassel loan (British).	£1,000,000	95½	6	Customs revenue..	Redeemed.
The Nanking loan (German)	£1,000,000	95½	6	Customs revenue and Kiangsi likin and salt tax	Redeemed.
The Anglo-German loan.	£16,000,000	94	5	Customs revenue..	1896–1932
The Anglo-German loan	£16,000,000	83	4½	Customs revenue and 1st charge on 3 salt taxes and 4 likin duties	1898–1943
The Boxer indemnity.	Tls 450,000,000	..	4	Customs and native customs and salt revenue	1901–1940

Appendix C. Railway Loans

Title and Source.	Principal Amount.	Amount received.	Interest per cent.	Security.	Date and Redemption Date.
Franco-Belgian Loan for Peking-Hankow Railway	£4,500,000	90	5	.....	Redeemed in 1909
British and Chinese Corporation Loan for Imperial Railways of North China	£2,300,000	90	5	Railway revenue and government guarantee	1898-1944
Russo-Chinese Bank Loan for Shansi Railway	£1,600,000	90	5	Railway revenue and govt. guarantee	1900-1932
Franco-Belgian Loan for Kaifeng-fu-Honan Railway	£1,000,000	90	5	Railway revenue and govt. guarantee	1903-1934
Franco-Belgian Supplementary Loan (Kaifengfu-Honan Railway)	£640,000	90	5	Same	1907-1932
British and Chinese Corporation Loan for Shanghai-Nanking Railway	£2,250,000	90	5	Profit of, and mortgage upon the railway	1904-1953
British and Chinese Corporation Supplementary Loan (Shanghai-Nanking Railway)	£650,000	95½	5	Same	1907-1953
Pekin Syndicate Loan for Taokow-Chinghua Railway	£700,000	90	5	Railway revenue and govt. guarantee	1905-1935
Hongkong Govt. Loan for Redemption of Canton-Hankow Railway	£1,100,000	100	4½	.....	Redeemed in 1915
British and Chinese Corporation Loan for Canton-Kowloon Railway	£1,500,000	94	5	Profit of and mortgage upon the railway	1907-1937
Anglo-German Loan for the Tientsin-Pukow Railway	£3,000,000	93	5	First charge upon likin and internal revenues of Chih-li, Shantung, and Kiangsu	1908-1938
Anglo-German Loan for the Tientsin-Pukow Railway	£2,000,000	93	5	Same	1909-1938

APPENDIX C. RAILWAY LOANS—*Continued*

Title and Source.	Principal Amount.	Amount received.	Interest per cent.	Security.	Date and Redemption Date.
British and Chinese Corporation Loan for Shanghai-Hangchow-Ningpo Railway.	£1,500,000	93	5	Surplus earnings of Peking-Mukden Railway...	1908–1938
Anglo-French Loan for Redemption of Peking - Hankow Railway.....	£5,000,000	94	5	Surplus taxes of Che-kiang, Hupeh and Chih-h.	1908–1938
Japanese Loan for Kirin - Changchun Railway).....	Y2,150,000	93	5	Revenue of the railway	1908–1934
Japanese Loan for Hsinmintun - Mukden Railway.....	Y320,000	93	5	Revenue of the railway	1909–1927
Anglo-German Supplementary Loan (Tientsin - Pukow Railway).....	£3,000,000	94½	5	First charge upon likin and certain internal taxes of Chihli, Shantung, Kiangsu and Ankwei....	1910–1940
London, City, and Midland Bank (Yuchuanpu Bonds for Peking - Hankow Railway expenses..	£450,000	97½	7	Revenue of the railway	1910–1920
Peking-Hankow Railway Redemption Loan (Yokohama Specie Bank).....	Y220,000	97½	7	Revenue of the railway	1910–1920
Yuchuanpu Loan for Peking - Hankow Railway expenses (Yokohama Specie Bank)	Y1,000,000	95	5	The Kiangsu Tribute Grain Conversion tax	1911–1936
Hukuang Railway Loan (British-French - German - American)	£6,000,000	95	5	The Hupeh and Hunan salt and likin revenues and Hupeh rice tax	1911–1951
Belgian - Lanchow Railway Loan (Lung - Tsing - U - Hai)	£10,000,000	94	5	Govt. guarantee and mortgage on railway	1912–1952

APPENDIX C. RAILWAY LOANS—*Continued*

Title and Source.	Principal Amount.	Amount received.	Interest per cent.	Security.	Date and Redemption Date.
The French-Belgian Loan for Tung-Cheng Railway....	£10,000,000	94½	5	Revenue and properties of the railway	1913–1953
Sinyang-Pukow Railway Loan (Chinese Central Railways Co. Ltd.).....	£3,000,000	94½	5	Revenue and properties of the railway.....	1913–1953
Ching-Yu Railway Loan (Banque Industrielle de Chine).	600,000,000 francs	94	5	Revenue and properties of the railway.....	1914–1964
Nanking-Hunan Railway Loan (British and Chinese Corporation)	£8,000,000	96	5	Revenue and properties of the railway.....	1914–1959
The Sha-Hsing Railway Loan (Messrs Pauling and Company).....	£10,000.000	96	5	Government guarantee and revenue and properties of the railway.....	1914–1954

APPENDIX D. GENERAL LOANS

	Title and Source.	Principal Amount.	Price of Issue.	Interest per cent.	Security.	Date and Redemption Date.
Part I. Expedition Loans.	The Ili Expedition Loan	£1,000,000	..	..	Customs revenue..	Redeemed
	The Formosan Expedition loan	Tls 2,000,000	..	8	Customs revenue..	Redeemed
	The South-west Expedition loan	Tls 5,000,000	..	15	Customs revenue in Canton, Wenchow, Shankgai and Hankow...	Redeemed
Part II. Military Loans.	The first naval loan (German)	Mks 2,500,000	..	5.5	Customs revenue..	Redeemed
	The second naval loan (British)	Tls 16,000,000	..	7	Customs revenue..	Redeemed
	The third naval loan (German)	Mks 5,000,000	..	5	Customs revenue..	Redeemed
	The Austrian munition loan	£300,000	95	6	Tax on title deeds.	Redeemed
	The first Austrian loan.	£2,000,000	92	6	Tax on title deeds.	Redeemed
	The second Austrian loan	£1,200,000	92	6	Tax on title deeds.	Redeemed
Part III. Reorganization Loans.	The Currency loan..	£10,000,000	95	5	The Manchurian tobacco, wine, production and consumption taxes and the new surtax on salt in the provinces.	Concluded in 1911 but not yet floated
	The Crisp loan	£5,000,000	85	5	Salt revenue	1912-1952
	The Reorganization loan (British-German-French-Russian-Japanese)	£25,000,000	90	5	Salt and customs revenue and certain specified taxes in Chih-li, Shantung, Honan and Kiansu.	1913-1958

APPENDIX D. GENERAL LOANS [1]—*Continued*

Part IV. Industrial Loans (railway loans not included).

Title and Source.	Principal Amount.	Price of Issue.	Interest per cent.	Security.	Date and Redemption Date.
The first cable loan (The Eastern Extension and the Great Northern Telegraph Company).	£210,000	..	5	The cable lines constructed....	1901–1931
The second cable loan (from the same source)	£48,000	..	5	The cable lines constructed....	1902–1931
The cable-telephone loan (from the same source)	£500,000	..	5	Receipts from the cable-telephone services and govt. guarantee.	1911–1931
The Tientsin telephone loan (from a British firm in Tientsin)	£42,300	..	7	Receipts and properties of the Tientsin telephone service..	1915–1924
The Franco-Chinese Industrial loan (Banque Industrielle de Chine)	100,000,000 francs	91	5	Receipts from the industries undertaken and tobacco and wine taxes	1914–1964
The Huai Conservancy loan (American-Japanese).....	$6,000,000 gold	90	7	.....	1917–1937

[1] For the recent Japanese loans, *cf. supra*, pp. 50–55; for the Short Term Debts of the Chinese Government, see *China Year Book*, 1916, ch. xvi.

APPENDIX E. PROVINCIAL LOANS

	Title and Source.	Principal Amount.	Price of Issue.	Interest per cent.	Security.	Date and Redemption Date.
Part I. Domestic Loans.	The Chih-li loan of 1905	Tls 4,800,000	..	7	Certain provincial taxes and receipts.	Redeemed
	The Hupeh loan of 1909	Tls 2,400,000	..	7	same	Redeemed
	The Ankwei loan of 1910	Tls 1,200,000	..	7	same	Redeemed
	The Hunan loan of 1910	Tls 1,200,000	..	7	same	Redeemed
	The Kiangsu loan of 1912	Tls 1,000,000	..	7	same	Redeemed
	The Che-kiang loan of 1912	unknown	..	7	unknown	Redeemed
	The Fukien loan of 1912	unknown	..	7	unknown	Redeemed
Part II. Foreign Loans.	The Hupeh loan of 1909	Tls 500,000	..	7	Yee-chang likin tax on salt	Redeemed
	The Hupeh loan of 1911	Tls 2,000,000	..	7	same	Redeemed
	The Hupeh loan of 1912	Tls 3,000,000	..	6	Hankow taxes	Redeemed
	The Shanghai loan of 1910	Tls 3,500,000	..	4	The guarantee of the Shanghai intendant	Redeemed
	The Shanghai merchants loan of 1910.	Tls 2,000,000	..	7	The private properties of Shanghai merchants	Redeemed
	The Kiangsu loan of 1910	Tls 3,000,000	..	7	Kiangsui salt tax.	Redeemed
	The Canton loan of 1911	Y 6,000,000	..	6	unknown	Redeemed
	The Canton loan of 1911	Y 1,000,000	..	6	Certain govt. monopolies	Redeemed
	The Yunnan loan of 1911 (Anglo-French)	Tls 1,800,000	..	5	unknown	1911–1936
	The Chih-li loan of 1912 (German)	£800,000	..	7	Provincial taxes on wine, tobacco and tea	1912–1922
	The Che-kiang loan of 1912 (German)	Mks 5,000,000	..	6	The likin and the special silk tax Che-kiang	Redeemed

APPENDIX F. THE EXCHANGE VALUE OF THE HAIKWAN TAEL, 1895-1914 [1]

Year	Haikwan Tael equivalent to				
	Pounds Sterling	American Dollars	Francs	Marks	Yen
1895....	3/3¼	0.80	4.11	3.34	....
1896....	3/4	0.81	4.20	3.39	....
1897....	2/11¾	0.72	3.73	3.03	....
1898....	2/10⅝	0.70	3.76	2.94	....
1899....	3/0⅛	0.73	3.79	3.06	1.47
1900....	3/1¼	0.75	3.90	3.16	1.52
1901....	2/11 9/10	0.72	3.73	3.02	1.45
1902....	2/7½	0.63	3.28	2.65	1.27
1903....	2/7⅔	0.64	3.34	2.68	1.28
1904....	2/10⅔	0.66	3.60	2.92	1.40
1905....	3/0 1/10	0.73	3.79	3.06	1.46
1906....	3/3½	0.80	4.12	3.36	1.60
1907....	3/3	0.79	4.09	3.33	1.58
1908....	2/8	0.65	3.37	2.74	1.31
1909....	2/7 3/10	0.63	3.28	2.66	1.27
1910....	2/8 5/10	0.66	3.40	2.76	1.31
1911....	2/8¼	0.65	3.40	2.75	1.32
1912....	3/0⅝	0.74	3.85	3.12	1.49
1913....	3/0¼	0.73	3.81	3.08	1.47
1914....	2/8¾	0.67	3.45	2.79	1.34

[1] This statistical table was compiled from the returns given in the various annual publications of the Chinese Maritime Customs. In the past, the Haikwan tael and the Kuping or Treasury tael have been widely used throughout the Empire. All government taxes and dues other than the customs revenue were paid in the Kuping tael, while the duties levied by the maritime customs and foreign exchanges have been calculated in the Haikwan tael. Since 1910, the dollar which is equal to 0.72 Haikwan tael, has been adopted as the unit of currency in China. At the present time, the dollar is taking the place of the Kuping tael, while the Haikwan tael is still used in customs transactions.

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VITA

The author was born in Canton, China, October, 1894. During his boyhood he studied Chinese classics and literature under his uncle, Huang Wen-chih, a holder of the M.A. degree under the old régime. In 1912 he was admitted into the Tsing-hua College at Peking. After having successfully passed a competitive examination in 1914, he was sent by his government to the United States to study. From 1914 to 1917 he attended the University of Wisconsin and took courses in Political Science and Political Economy under Professors R. T. Ely, E. A. Ross, J. R. Commons, W. A. Scott, C. Lloyd-Jones, F. A. Ogg and H. K. Hornbeck. As a student in the department of Economics at Columbia University, he studied under Professors Seligman, Clark, Simkhovitch and Chaddock, and attended the lectures of Professors J. B. Moore, Giddings, Dunning, Robinson and Lindsay. He was also a member of the seminars conducted by Professors Seligman, Mitchell and Simkhovitch. Occasionally the author contributes articles on various international subjects to papers and magazines both in China and in the United States.